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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

The board of directors of China Literature Limited hereby announces the unaudited consolidated results of the Group for the six months ended June 30, 2022. The Audit Committee, together with management and the Auditor, has reviewed the unaudited interim results of the Group for the six months ended June 30, 2022.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		Year- over-year (%)
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	
Revenues	4,087,214	4,342,146	(5.9)
Gross profit	2,146,326	2,288,065	(6.2)
Operating profit	251,209	1,284,000	(80.4)
Profit before income tax	340,436	1,365,378	(75.1)
Profit for the period	232,276	1,080,950	(78.5)
Profit attributable to equity holders of the Company	228,545	1,082,742	(78.9)
Non-IFRS profit attributable to equity holders of the Company	665,995	664,989	0.2

BUSINESS REVIEW AND OUTLOOK

Overview

During the first half of 2022, in response to changes in the macro environment, we initiated a series of measures to control costs and improve operational efficiency, and focused more on key businesses and long-term targets. The Company's operating efficiency improved significantly as a result. Non-IFRS operating profit increased by 8.2% year-over-year to RMB693.8 million, and non-IFRS operating margin increased from 14.8% a year ago to 17.0% in the first half of 2022.

Business Highlights

IP Creation

As we have mentioned before, the online literature business is where our quality IP content begins. We focused on fundamentals of our online business in our core pay-to-read business, and continued to strengthen our online literature IP ecosystem. During the first half of 2022, the number, quality and visibility of IP on our online literature platform continued to increase.

On the supply side, our online literature platform added approximately 300,000 writers and 600,000 novels, with an increase in word count of 16 billion Chinese characters. At the same time, we accelerated the development of high-quality content in specific categories by improving our system for incubation and operations. For example, at the beginning of this year, we identified through internal analysis the rising potential of science fiction themes, leading us to organize two science fiction writing contests and a series of activities, incubating about 20,000 science fiction works. A number of well-known writers in other thematic areas have also started to create science fiction. During the first half, a total of 12 Platinum and Phenomenal Writers on our platform started to produce science fiction novels, making science fiction the fastest growing genre on our platform.

This year marks the 20th anniversary of the founding of Qidian.com under China Literature. We upgraded the brand of Qidian, and launched a new brand proposition of "every good book is a new starting point" and a brand mission of "good books never end" which are consistent with the Company's mission. With quality as the core, we will focus on the incubation of compelling online literature content and incubation of IP and encourage content diversification to create a healthy ecosystem for writers.

While improving the quality and quantity of our literary IPs, we also implemented cost control measures, proactively reduced certain sales and marketing expenses, and shifted our focus from prioritizing short-term revenue growth to optimizing operational efficiency and cost structure. As a result, we gave up a portion of revenues during the current period, but we believe these measures will lay a solid foundation for the healthy development of our long-term business.

In order to protect the rights and interests of writers, we enhanced our efforts to combat piracy issues. We deployed artificial intelligence, encrypted watermarks, piracy detection and risk controls and bans to improve our copyright protection and anti-piracy capabilities, and continued to litigate against piracy sites and IP infringement. Our robust efforts to protect copyright and IP have been recognized by writers, helping to win their trust, and is an important part of the ongoing improvement of our content ecosystem.

Visualization of IP

Currently, IP visualization is the focus of our work. In the first half of 2022, we achieved remarkable results. Continuous release of high-quality content, particularly blockbusters, reflected the strong capabilities of China Literature in re-creating literary stories in visual formats, and supports our strategy of IP visualization.

- In the live action TV and film segment, we maintained a top-tier level of productions and launched several compelling new works in the first half of the year, including:
 - The drama series, *A Lifelong Journey* (人世間). Adapted from the Mao Dun Literature Prize-winning novel by contemporary writer Liang Xiaosheng, this blockbuster series set an 8-year record for CCTV-1 prime time drama series ratings, topped all charts across the internet, and achieved results in both reputation and popularity.
 - The drama series, *Life is A Long Quiet River* (心居). The viewership of this family drama series ranked first among local TV prime time drama series ratings nationwide in the first half of this year, and ranked second in the popularity ranking of iQIYI in the first half of this year, right after *A Lifelong Journey* (人世間).
 - The drama series, *The Wind Blows from Longxi* (風起隴西). Adapted from the novel by Ma Boyong, this drama series was an innovative exploration of the theme of ancient spycraft, with a score of 8.1 on the Douban platform.
 - The drama series, *Master of My Own* (請叫我總監). This romantic drama series ranked first for local TV prime time drama series ratings nationwide and ranked first in the list of hot drama series on Youku during its broadcast period.
 - The film, *Too Cool To Kill* (這個殺手不太冷靜). The film achieved a box office of RMB2.6 billion, ranking second in the 2022 Spring Festival box office.

At the same time, we continued to work on serial development of IP drama series, such as Joy of Life (慶餘年), My Heroic Husband (贅婿), and Dafeng Guardian (大奉打更人). We believe that the launch of these works will bring China Literature's IP brand appeal to a higher level.

- In the animation segment, we launched new seasons of Stellar Transformations (星辰變) and Martial Universe (武動乾坤). At present, the series Stellar Transformations (星辰變) and Martial Universe (武動乾坤) have had 4 billion and 3 billion video views respectively, and ranked No.1 in terms of the average video views per episode among newly released animations on Tencent Video at the time of their launch period in the first half of the year. According to data from Guduo, among the top 20 most watched domestic animation works released on Tencent Video in the first half of 2022, 11 were adapted from China Literature's IP.
- In the comics segment, we continued to improve production capacity, accelerate the process of IP visualization, and incubate top IP. Our joint project with Tencent Comics to adapt 300 online literary works into comics in three years is progressing well. Right now, over 170 adapted comic works have been launched on the Tencent Comics platform. Some titles have become blockbusters, such as Dafeng Guardian (大奉打更人), The First Sequence (第一序列) and Start with a Mountain (開局一座山).
- In the games segment, we strengthened our partnerships with quality game production studios. In the first half of this year, popular IPs such as Battle Through the Heavens (斗破蒼穹) and The Naming of Night (夜的命名術) were licensed to game developers for adaptation. We expect to see the release of these adapted games in the next few years.

Commercialization of IP

In the first half of 2022, we continued to build a foundation for the business, shortening the conversion time from IP to offline products, expanding the number of IP and product types, and achieving breakthroughs in theme, product style and design. We focused on opportunities in consumer goods, fashion toys and offline retail. We achieved initial success by working together with upstream and downstream partners in the industry. For example, we licensed a single edition of toy sculptures of the theme character "Medusa" from Battle Through the Heavens (斗破蒼穹), which sold out immediately after the pre-sale launch with a GMV of RMB5 million. In future, we will develop derivatives adapted from more IP content, such as Joy of Life (慶餘年), Lord of the Mysteries (詭秘之主), The King's Avatar (全職高手) and Candle in the Tomb (鬼吹燈), and offer joint promotion for the launch of drama series, film, animation, comics, games and other content.

Overseas Business

We continued to promote cultural exchange and expand our international presence. As of June 30, 2022, WebNovel, our foreign language online reading brand, offered approximately 2,600 works translated from Chinese and approximately 420,000 original content works created locally.

Social Responsibility

China Literature takes account of its social responsibilities by promoting the development of good reading habits through social activities and public welfare projects in order to support the national campaign of “reading for all”. During the pandemic outbreak this year, we donated several millions of membership cards to users in pandemic-affected areas including Shanghai, Shenzhen and Suzhou, allowing them to read a large number of works for free. On World Book and Copyright Day this year, we collaborated with the National Library of China, Shanghai Library, People’s Literature Publishing House, Posts & Telecom Press and hundreds of other publishing units to promote nationwide reading. Our Qidian Reading App launched the “Nationwide Reading Month” campaign with 217 high-quality paid books available for free reading for the first time.

Outlook

Online literature has begun to show value and possibilities that go beyond print. The realization of such value will depend on our efforts. With online literature as the starting point, China Literature has gradually expanded to various media formats including drama series, film, animation, comics, games and offline merchandise. While meeting the diverse literary, entertainment and cultural needs of people, various works adapted from our original IP amplify the bandwidth of the original narrative and form a mutually reinforcing virtuous cycle. China’s IP industry is still at an early stage, and will need sustained investment in IP development and creative talent. By strengthening our own IP resources, we hope to link with industry partners to create IP that spans the whole value chain, in the service of good stories that will live forever.

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenues	4,087,214	4,342,146
Cost of revenues	<u>(1,940,888)</u>	<u>(2,054,081)</u>
Gross profit	2,146,326	2,288,065
Interest income	68,855	60,617
Other (losses)/gains, net	(235,409)	901,146
Selling and marketing expenses	(1,110,501)	(1,348,209)
General and administrative expenses	(557,530)	(635,087)
Net (provision for)/reversal of impairment losses on financial assets	<u>(60,532)</u>	<u>17,468</u>
Operating profit	251,209	1,284,000
Finance costs	(31,604)	(34,561)
Share of net profit of associates and joint ventures	<u>120,831</u>	<u>115,939</u>
Profit before income tax	340,436	1,365,378
Income tax expense	<u>(108,160)</u>	<u>(284,428)</u>
Profit for the period	<u>232,276</u>	<u>1,080,950</u>
Attributable to:		
Equity holders of the Company	228,545	1,082,742
Non-controlling interests	<u>3,731</u>	<u>(1,792)</u>
	<u>232,276</u>	<u>1,080,950</u>
Non-IFRS profit for the period	<u>669,726</u>	<u>663,197</u>
Attributable to:		
Equity holders of the Company	665,995	664,989
Non-controlling interests	<u>3,731</u>	<u>(1,792)</u>
	<u>669,726</u>	<u>663,197</u>

Revenues. Revenues decreased by 5.9% to RMB4,087.2 million for the six months ended June 30, 2022 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,			
	2022		2021	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Online business⁽¹⁾				
On our self-owned platform products	1,763,077	43.1	1,880,654	43.3
On our self-operated channels on Tencent products	347,482	8.5	353,456	8.1
On third-party platforms	196,457	4.8	305,846	7.1
Subtotal	<u>2,307,016</u>	<u>56.4</u>	<u>2,539,956</u>	<u>58.5</u>
Intellectual property operations and others⁽²⁾				
Intellectual property operations	1,731,258	42.4	1,740,086	40.1
Others	48,940	1.2	62,104	1.4
Subtotal	<u>1,780,198</u>	<u>43.6</u>	<u>1,802,190</u>	<u>41.5</u>
Total revenues	<u><u>4,087,214</u></u>	<u><u>100.0</u></u>	<u><u>4,342,146</u></u>	<u><u>100.0</u></u>

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.

- Revenues from online business decreased by 9.2% to RMB2,307.0 million for the six months ended June 30, 2022 on a year-over-year basis, accounting for 56.4% of total revenues.

Revenues from online business on our self-owned platform products decreased by 6.3% to RMB1,763.1 million for the six months ended June 30, 2022. The decrease was mainly due to a reduction in marketing spending for user acquisition as we took initiatives to optimize costs and improve operational efficiency in online business during the first half of 2022.

Revenues from online business on our self-operated channels on Tencent products decreased by 1.7% to RMB347.5 million for the six months ended June 30, 2022, mainly due to the lower monetization efficiency of advertisements for our free reading content as impacted by the macro environment.

Revenues from online business on third-party platforms decreased by 35.8% to RMB196.5 million for the six months ended June 30, 2022, primarily due to the suspension of collaboration with certain third-party distribution partners.

The following table summarizes our key operating data for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,	
	2022	2021
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	264.7 million	232.7 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	8.1 million	9.3 million
Monthly average revenue per paying user (“ARPU”) ⁽¹⁾	RMB38.8	RMB36.4

Note:

- (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 13.8% year-over-year from 232.7 million to 264.7 million for the six months ended June 30, 2022, among which i) MAUs on our self-owned platform products increased by 4.5% year-over-year from 114.6 million to 119.8 million, mainly driven by our strengths in high-quality content; and ii) MAUs on our self-operated channels on Tencent products increased by 22.7% year-over-year from 118.1 million to 144.9 million, mainly due to growth in users for our free-to-read content.
 - Average MPUs on our self-owned platform products and self-operated channels decreased by 12.9% year-over-year from 9.3 million for the six months ended June 30, 2021 to 8.1 million for the six months ended June 30, 2022, mainly as more casual users were attracted to our free-to-read content in the second half of 2021. The average MPUs for the reporting period were stable compared to the previous six months results for the period ended December 31, 2021.
 - Monthly ARPU for our pay-to-read business increased by 6.6% year-over-year from RMB36.4 to RMB38.8 for the six months ended June 30, 2022, reflecting improvements in content operations, community features, and recommendation efficiency. These drove the demand of paying users for high-quality content during the first half of 2022.
 - Average DAUs for our free-to-read business increased by 7.7% year-over-year from 13 million in June 2021 to 14 million in June 2022.
- Revenues from intellectual property operations and others decreased by 1.2% year-over-year to RMB1,780.2 million for the six months ended June 30, 2022.

Revenues from intellectual property operations were broadly stable at RMB1,731.3 million, compared with the six months ended June 30, 2021. During the first half of 2022, we experienced solid growth in revenues from our TV and web series, films, licensing of copyrights, and animation series. However, revenue growth was neutralized by lower revenue contributions from our self-operated online games.

Revenues from others decreased by 21.2% year-over-year to RMB48.9 million for the six months ended June 30, 2022. These revenues were generated mainly by sales of physical books.

Cost of revenues. Cost of revenues decreased by 5.5% year-over-year to RMB1,940.9 million for the six months ended June 30, 2022, as a result of i) lower amortization of intangible assets of content copyrights due to a lower unamortized balance, ii) a reduction in platform distribution costs for our online businesses, and iii) lower content costs related to revenues from our online reading business. The decrease in the cost of revenues was partially offset by an increase in production costs of TV, web and animated series and films along with the increase in revenues.

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

	Six months ended June 30,			
	2022		2021	
	RMB'000	% of	RMB'000	% of
	(Unaudited)	revenues	(Unaudited)	revenues
Content costs	743,142	18.2	800,085	18.4
Platform distribution costs	475,040	11.6	609,620	14.0
Production costs of TV, web and animated series and films	451,389	11.0	223,574	5.1
Amortization of intangible assets	102,106	2.5	242,749	5.6
Cost of inventories	25,168	0.6	33,512	0.8
Others	144,043	3.6	144,541	3.4
Total cost of revenues	1,940,888	47.5	2,054,081	47.3

Gross profit and gross margin. As a result of the foregoing, our gross profit declined by 6.2% year-over-year to RMB2,146.3 million for the six months ended June 30, 2022. Gross margin was 52.5% for the six months ended June 30, 2022, compared with 52.7% for the six months ended June 30, 2021.

Interest income. Interest income increased by 13.6% year-over-year to RMB68.9 million for the six months ended June 30, 2022, reflecting higher interest income from bank deposits.

Other (losses)/gains, net. We recorded net other losses of RMB235.4 million for the six months ended June 30, 2022, compared with net other gains of RMB901.1 million for the six months ended June 30, 2021. The year-over-year difference was mainly due to a gain of RMB1,076.8 million related to the sale of our equity interest in Shenzhen Lanren during the first half of 2021. The other losses for the six months ended June 30, 2022 consisted mainly of fair value losses of RMB372.9 million resulting from the decreased valuations of our investee companies. These losses were partially offset by a fair value gain of RMB112.2 million due to a change in the fair value of consideration liabilities related to the acquisition of NCM.

Selling and marketing expenses. Selling and marketing expenses decreased by 17.6% year-over-year to RMB1,110.5 million for the six months ended June 30, 2022, mainly as we reduced promotion and advertising expenses for online business as a part of our cost control and efficiency improvement initiatives during the first half of 2022. The decrease was partially offset by greater marketing expenses to promote our films and drama series during the first half of 2022. As a percentage of revenues, our selling and marketing expenses decreased to 27.2% for the six months ended June 30, 2022 from 31.0% for the six months ended June 30, 2021.

General and administrative expenses. General and administrative expenses declined by 12.2% year-over-year to RMB557.5 million for the six months ended June 30, 2022, primarily due to a decrease in research and development expenses. As a percentage of revenues, general and administrative expenses decreased to 13.6% for the six months ended June 30, 2022 from 14.6% for the six months ended June 30, 2021.

Net (provision for)/reversal of impairment losses on financial assets. The impairment losses on financial assets reflected a provision for doubtful receivables. For the six months ended June 30, 2022, the provision for doubtful receivables was RMB60.5 million on a net basis, mainly related to TV series and film projects.

Operating profit. As a result of the foregoing, we had an operating profit of RMB251.2 million for the six months ended June 30, 2022, compared with RMB1,284.0 million for the six months ended June 30, 2021. Non-IFRS operating profit increased by 8.2% year-over-year from RMB641.5 million for the six months ended June 30, 2021 to RMB693.8 million for the six months ended June 30, 2022, reflecting successful efforts to control operational costs.

Finance costs. Finance costs decreased by 8.6% year-over-year to RMB31.6 million for the six months ended June 30, 2022. The decrease was mainly due to lower interest expenses as the balance of borrowings decreased in the first half of 2022.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased 4.2% year-over-year to RMB120.8 million for the six months ended June 30, 2022.

Income tax expense. Income tax expense was RMB108.2 million for the six months ended June 30, 2022, compared with RMB284.4 million for the six months ended June 30, 2021. The change was due to a lower profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company was RMB228.5 million for the six months ended June 30, 2022, compared with RMB1,082.7 million for the six months ended June 30, 2021. Non-IFRS profit attributable to equity holders of the Company increased by 0.2% from RMB665.0 million for the six months ended June 30, 2021 to RMB666.0 million for the six months ended June 30, 2022.

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the six months ended June 30, 2022 and 2021:

	Six months ended June 30, 2022		
	Online business <i>RMB'000</i> <i>(Unaudited)</i>	Intellectual property operations and others <i>RMB'000</i> <i>(Unaudited)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	<u>1,146,745</u>	<u>794,143</u>	<u>1,940,888</u>
Gross profit	<u><u>1,160,271</u></u>	<u><u>986,055</u></u>	<u><u>2,146,326</u></u>
Gross margin	<u><u>50.3%</u></u>	<u><u>55.4%</u></u>	<u><u>52.5%</u></u>
	Six months ended June 30, 2021		
	Online business <i>RMB'000</i> <i>(Unaudited)</i>	Intellectual property operations and others <i>RMB'000</i> <i>(Unaudited)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	<u>1,336,007</u>	<u>718,074</u>	<u>2,054,081</u>
Gross profit	<u><u>1,203,949</u></u>	<u><u>1,084,116</u></u>	<u><u>2,288,065</u></u>
Gross margin	<u><u>47.4%</u></u>	<u><u>60.2%</u></u>	<u><u>52.7%</u></u>

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
EBITDA ⁽¹⁾	600,560	626,859
Adjusted EBITDA ⁽²⁾	745,058	708,887
Adjusted EBITDA margin ⁽³⁾	18.2%	16.3%
Interest expense	34,095	32,381
Net cash ⁽⁴⁾	6,555,723	5,691,918
Capital expenditures ⁽⁵⁾	136,603	117,778

Notes:

- (1) EBITDA consists of operating profit for the period less interest income and other (losses)/gains, net and plus depreciation of property, plant and equipment as well as right-of-use assets, and amortization of intangible assets.
- (2) Adjusted EBITDA is calculated as EBITDA for the period plus share-based compensation expense and expenditures related to acquisition.
- (3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.
- (4) Net cash is calculated as cash and cash equivalents and term 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 to our EBITDA and adjusted EBITDA for the periods presented:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating profit	251,209	1,284,000
Adjustments:		
Interest income	(68,855)	(60,617)
Other losses/(gains), net	235,409	(901,146)
Depreciation of property, plant and equipment	9,598	9,479
Depreciation of right-of-use assets	49,927	32,442
Amortization of intangible assets	123,272	262,701
	<hr/>	<hr/>
EBITDA	600,560	626,859
	<hr/>	<hr/>
Adjustments:		
Share-based compensation	116,659	53,729
Expenditures related to acquisition	27,839	28,299
	<hr/>	<hr/>
Adjusted EBITDA	745,058	708,887
	<hr/> <hr/>	<hr/> <hr/>

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 period, non-IFRS net margin, non-IFRS profit attributable to equity holders of the Company, non-IFRS basic EPS and non-IFRS diluted EPS as additional financial measures, have been presented for the convenience of readers in this interim results announcement. 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 non-IFRS financial measures may be defined differently from similar terms used by other companies. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

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

The following tables set forth the reconciliations of our Group's non-IFRS financial measures for the six months ended June 30, 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2022					
	As reported	Adjustments				Tax effect
Share-based compensation		Net losses from investments and acquisition ⁽¹⁾	Amortization of intangible assets ⁽²⁾			
Operating profit	251,209	116,659	305,897	20,059	-	693,824
Profit for the period	232,276	116,659	305,897	20,059	(5,165)	669,726
Profit attributable to equity holders of the Company	228,545	116,659	305,897	20,059	(5,165)	665,995
EPS (RMB per share)						
- basic	0.23					0.66
- diluted	0.22					0.65
Operating margin	6.1%					17.0%
Net margin	5.7%					16.4%

Unaudited six months ended June 30, 2021

	Adjustments					
	As reported	Share-based compensation	Net (gains) from investments and acquisition ⁽¹⁾ <i>(RMB' 000, unless specified)</i>	Amortization of intangible assets ⁽²⁾	Tax effect	Non-IFRS
Operating profit	1,284,000	53,729	(716,738)	20,469	–	641,460
Profit for the period	1,080,950	53,729	(716,738)	20,469	224,787	663,197
Profit attributable to equity holders of the Company	1,082,742	53,729	(716,738)	20,469	224,787	664,989
EPS (RMB per share)						
– basic	1.08					0.66
– diluted	1.07					0.66
Operating margin	29.6%					14.8%
Net margin	24.9%					15.3%

Notes:

- (1) For the six months ended June 30, 2022 and 2021, this item includes the disposal loss/(gains) and the fair value changes arising from our investee companies, the fair value changes of consideration liabilities related to the acquisition of NCM and the 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 maintained a healthy and sound financial position during the six months under review. Total assets decreased from RMB23,297.3 million as of December 31, 2021 to RMB22,775.3 million as of June 30, 2022, while our total liabilities decreased from RMB6,110.3 million as of December 31, 2021 to RMB5,144.5 million as of June 30, 2022. The liabilities-to-assets ratio decreased from 26.2% as of December 31, 2021 to 22.6% as of June 30, 2022.

As of June 30, 2022, the current ratio (the ratio of total current assets to total current liabilities) was 290.8%, compared with 282.2% as of December 31, 2021.

As of June 30, 2022 and December 31, 2021, our Group had pledged notes receivables as security to certain bank borrowings of RMB192.2 million and nil, respectively.

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 June 30, 2022, our Group had net cash of RMB6,555.7 million, compared with RMB6,031.1 million as of December 31, 2021. The increase in net cash in the first half of 2022 was mainly due to the cash generated from our operating activities, partially offset by capital expenditures and the earn-out cash consideration paid for the acquisition of NCM based on its 2021 financial performance. For the six months ended June 30, 2022, our Group had free cash flow of RMB548.7 million. This was a result of net cash flow generated from operating activities of RMB706.8 million, deducting payments for lease liabilities of RMB21.5 million and payments for capital expenditures of RMB136.6 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 June 30, 2022:

- Our gearing ratio was 3.4%, compared with 6.8% as of December 31, 2021.
- Our total borrowings were RMB594.9 million, which were primarily denominated in RMB and USD.
- Our unutilized banking facility was RMB2,088.5 million.

As of June 30, 2022 and December 31, 2021, our Group had no significant contingent liabilities.

As of June 30, 2022 and December 31, 2021, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures were primarily expenditures for intangible assets, such as copyrights of content and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the six months ended June 30, 2022 totalled RMB157.5 million, compared with RMB705.7 million for the six months ended June 30, 2021, representing a year-over-year decrease of RMB548.2 million which was primarily due to less expenditure on investments in the first half of 2022. 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 flow generated from our operations.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily 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 functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, or forward foreign exchange contracts, when necessary. We did not hedge against foreign currency movements during the six months ended June 30, 2022 and 2021.

Employees

As of June 30, 2022, we had approximately 1,900 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 accident insurance for our employees. Bonuses are generally discretionary and are based in part on the overall performance of our business. We have granted and planned to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

NEW CLASSICS MEDIA

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in TV series, web series and film production and distribution in China. NCM, on a standalone basis, recorded RMB966.7 million in revenues and RMB208.5 million in profit attributable to equity holders of the company for the six months ended June 30, 2022.

No Material Change

Since the publication of our audited financial statements for the year ended December 31, 2021 on March 22, 2022, there have been no material changes to our business.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2022

		Six months ended June 30,	
		2022	2021
	<i>Note</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Revenues	5	4,087,214	4,342,146
Cost of revenues	6	<u>(1,940,888)</u>	<u>(2,054,081)</u>
Gross profit		2,146,326	2,288,065
Interest income		68,855	60,617
Other (losses)/gains, net	7	(235,409)	901,146
Selling and marketing expenses	6	(1,110,501)	(1,348,209)
General and administrative expenses	6	(557,530)	(635,087)
Net (provision for)/reversal of impairment losses on financial assets		<u>(60,532)</u>	<u>17,468</u>
Operating profit		251,209	1,284,000
Finance costs		(31,604)	(34,561)
Share of net profit of associates and joint ventures	12	<u>120,831</u>	<u>115,939</u>
Profit before income tax		340,436	1,365,378
Income tax expense	8	<u>(108,160)</u>	<u>(284,428)</u>
Profit for the period		<u>232,276</u>	<u>1,080,950</u>
Other comprehensive income/(loss):			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive loss of associates and joint ventures		(458)	(2,352)
Currency translation differences		46,071	(40,598)
<i>Items that may not be reclassified to profit or loss</i>			
Net (loss)/gain from change in fair value of financial asset at fair value through other comprehensive income		(6,571)	5,912
Currency translation differences		<u>71,819</u>	<u>(2,154)</u>
		<u>110,861</u>	<u>(39,192)</u>
Total comprehensive income for the period		<u>343,137</u>	<u>1,041,758</u>

		Six months ended June 30,	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit attributable to:			
– Equity holders of the Company		228,545	1,082,742
– Non-controlling interests		3,731	(1,792)
		<u>232,276</u>	<u>1,080,950</u>
Total comprehensive income attributable to:			
– Equity holders of the Company		339,414	1,044,054
– Non-controlling interests		3,723	(2,296)
		<u>343,137</u>	<u>1,041,758</u>
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	<i>9(a)</i>	<u>0.23</u>	<u>1.08</u>
– Diluted earnings per share	<i>9(b)</i>	<u>0.22</u>	<u>1.07</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022**

		As of June 30, 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		67,328	45,123
Right-of-use assets		227,205	281,465
Intangible assets	11	7,436,978	7,455,499
Investments in associates and joint ventures	12	1,055,661	932,278
Financial assets at fair value through profit or loss	13	953,541	1,310,030
Financial asset at fair value through other comprehensive income	14	8,251	14,073
Deferred income tax assets		244,722	271,815
Prepayments, deposits and other assets		234,462	256,721
		<u>10,228,148</u>	<u>10,567,004</u>
Current assets			
Inventories	15	738,271	653,764
Television series and film rights	16	944,445	1,090,892
Financial assets at fair value through profit or loss	13	4,500	–
Trade and notes receivables	17	2,541,302	2,747,240
Prepayments, deposits and other assets		1,168,076	1,031,971
Term deposits		2,414,890	2,678,031
Cash and cash equivalents		4,735,717	4,528,412
		<u>12,547,201</u>	<u>12,730,310</u>
Total assets		<u><u>22,775,349</u></u>	<u><u>23,297,314</u></u>

		As of June 30, 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
	<i>Note</i>		
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		649	649
Shares held for RSU scheme		(17,450)	(17,450)
Share premium		16,403,026	16,412,728
Other reserves		1,680,146	1,455,101
Accumulated losses		(436,028)	(664,573)
		<u>17,630,343</u>	<u>17,186,455</u>
Non-controlling interests		<u>466</u>	<u>516</u>
Total equity		<u><u>17,630,809</u></u>	<u><u>17,186,971</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		–	382,542
Lease liabilities		164,122	201,850
Long-term payables		6,461	9,119
Deferred income tax liabilities		144,014	149,286
Deferred revenue		27,692	28,846
Financial liabilities at fair value through profit or loss		488,000	827,190
		<u>830,289</u>	<u>1,598,833</u>
Current liabilities			
Borrowings	19	594,884	792,776
Lease liabilities		83,764	72,573
Trade payables	20	1,188,878	1,127,368
Other payables and accruals		1,152,793	1,185,762
Deferred revenue		679,036	669,764
Current income tax liabilities		160,818	338,603
Financial liabilities at fair value through profit or loss		454,078	324,664
		<u>4,314,251</u>	<u>4,511,510</u>
Total liabilities		<u><u>5,144,540</u></u>	<u><u>6,110,343</u></u>
Total equity and liabilities		<u><u>22,775,349</u></u>	<u><u>23,297,314</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital	Share premium	Shares held		Accumulated losses	Sub-total	interests		
			for RSU scheme	Other reserves					
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
(Unaudited)									
As of January 1, 2022	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971	
Comprehensive income									
Profit for the period	-	-	-	-	228,545	228,545	3,731	232,276	
Other comprehensive loss									
- Share of other comprehensive income of associates and a joint venture (Note 12)	-	-	-	(458)	-	(458)	-	(458)	
- Currency translation differences	-	-	-	117,898	-	117,898	(8)	117,890	
- Net loss from change in fair value of financial asset at fair value through other comprehensive income (Note 14)	-	-	-	(6,571)	-	(6,571)	-	(6,571)	
Total comprehensive income for the period	-	-	-	110,869	228,545	339,414	3,723	343,137	
Transaction with owners									
Share-based compensation expenses	-	-	-	116,659	-	116,659	-	116,659	
Transfer of vested RSUs	-	(41,121)	-	-	-	(41,121)	-	(41,121)	
Issue of ordinary shares as consideration for a business combination	-	31,419	-	-	-	31,419	-	31,419	
Acquisition of non-controlling interests	-	-	-	(2,483)	-	(2,483)	(2,416)	(4,899)	
Disposal of a non-wholly owned subsidiary	-	-	-	-	-	-	(1,357)	(1,357)	
Transactions with owners in their capacity for the period	-	(9,702)	-	114,176	-	104,474	(3,773)	100,701	
As of June 30, 2022	649	16,403,026	(17,450)	1,680,146	(436,028)	17,630,343	466	17,630,809	

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital	Share premium	Shares held for RSU scheme	Other reserves	Accumulated losses	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)									
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									
Profit for the period	-	-	-	-	1,082,742	1,082,742	(1,792)	1,080,950	
Other comprehensive loss									
- Share of other comprehensive loss of associates and a joint venture (Note 12)	-	-	-	(2,352)	-	(2,352)	-	(2,352)	
- Currency translation differences	-	-	-	(42,248)	-	(42,248)	(504)	(42,752)	
- Net gain from change in fair value of financial asset at fair value through other comprehensive income (Note 14)	-	-	-	5,912	-	5,912	-	5,912	
Total comprehensive income for the period	-	-	-	(38,688)	1,082,742	1,044,054	(2,296)	1,041,758	
Transaction with owners									
Share-based compensation expenses	-	-	-	53,729	-	53,729	-	53,729	
Repurchase of shares for RSU scheme	-	-	(12,201)	-	-	(12,201)	-	(12,201)	
Transfer of vested RSUs	-	(2,052)	2	-	-	(2,050)	-	(2,050)	
Issue of ordinary shares as consideration for a business combination	2	202,027	-	-	-	202,029	-	202,029	
Transactions with owners in their capacity for the period	2	199,975	(12,199)	53,729	-	241,507	-	241,507	
As of June 30, 2021	647	16,459,663	(12,208)	1,283,229	(1,352,263)	16,379,068	2,704	16,381,772	

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	<u>706,767</u>	<u>430,027</u>
Net cash generated from investing activities	<u>106,106</u>	<u>1,449,707</u>
Net cash flows used in financing activities	<u>(674,036)</u>	<u>(124,709)</u>
Net increase in cash and cash equivalents	138,837	1,755,025
Cash and cash equivalents at beginning of the period	4,528,412	2,848,231
Exchange gains/(losses) on cash and cash equivalents	<u>68,468</u>	<u>(19,703)</u>
Cash and cash equivalents at end of the period	<u><u>4,735,717</u></u>	<u><u>4,583,553</u></u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

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

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

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

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

The interim financial information comprises the consolidated statement of financial position as of June 30, 2022, the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and notes, comprising significant accounting policies and other explanatory information (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “*Interim Financial Reporting*” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2021 annual report of the Company dated March 22, 2022 (the “2021 Financial Statements”).

3 Significant accounting policies

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2021 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including contingent consideration payable) at fair value through profit or loss, which are carried at fair value.

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

3.1 Amendments to standards and interpretations adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 Cycle

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

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2022 and have not been early adopted by the Group in preparing the interim financial information. 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 IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture	To be determined
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	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

4 Segment information

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

The Group had the following reportable segments for the six months ended June 30, 2022 and 2021:

- Online business (including online paid reading, online advertising and game publishing); and
- Intellectual property operations and others (including licensing and distribution of film and television properties, copyrights licensing, sales of adaptation rights and scripts, sales of physical books, in-house online games operations, etc.)

As of June 30, 2022 and 2021, the chief operating decision-makers assessed 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 were common costs incurred for these operating segments as a whole and therefore, they were not included in the measure of the segments' performance which was used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net (provision for)/reversal of impairment loss on financial assets, other (losses)/gains, net, finance costs, share of profit of investments accounted for using equity method and income tax expenses were also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2022 and 2021. The revenues from external customers reported to the chief operating decision-makers were measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

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

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2022 and 2021 is as follows:

	Six months ended June 30, 2022		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	<u>1,146,745</u>	<u>794,143</u>	<u>1,940,888</u>
Gross profit	<u><u>1,160,271</u></u>	<u><u>986,055</u></u>	<u><u>2,146,326</u></u>
	Six months ended June 30, 2021		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	<u>1,336,007</u>	<u>718,074</u>	<u>2,054,081</u>
Gross profit	<u><u>1,203,949</u></u>	<u><u>1,084,116</u></u>	<u><u>2,288,065</u></u>

The reconciliation of gross profit to profit before income tax of individual period during the six months ended June 30, 2022 and 2021 is shown in the consolidated statement of comprehensive income.

For the six months ended June 30, 2022, the Group's customer base was diversified and included only Tencent, with whom transactions exceeded 10% of the Group's total revenues (for the six months ended June 30, 2021: only Tencent).

As of June 30, 2022 and 2021, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

5 Revenues

5.1 Disaggregation of revenue from contracts with customers

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

(Unaudited) Six months ended June 30, 2022	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>
Timing of revenue recognition:						
– At a point in time	1,611,937	259,053	196,457	1,204,167	46,436	3,318,050
– Over time	151,140	88,429	–	527,091	2,504	769,164
	<u>1,763,077</u>	<u>347,482</u>	<u>196,457</u>	<u>1,731,258</u>	<u>48,940</u>	<u>4,087,214</u>

(Unaudited) Six months ended June 30, 2021	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>
Timing of revenue recognition:						
– At a point in time	1,718,435	252,451	305,846	806,420	59,472	3,142,624
– Over time	162,219	101,005	–	933,666	2,632	1,199,522
	<u>1,880,654</u>	<u>353,456</u>	<u>305,846</u>	<u>1,740,086</u>	<u>62,104</u>	<u>4,342,146</u>

6 Expenses by nature

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Promotion and advertising expenses <i>(Note a)</i>	850,579	1,091,655
Content costs <i>(Note b)</i>	743,142	800,085
Employee benefits expenses <i>(Note c)</i>	556,171	497,530
Platform distribution costs <i>(Note d)</i>	475,040	609,620
Production costs of television, web and animated series and films	451,389	219,231
Payment handling costs	131,851	166,438
Amortisation of intangible assets <i>(Note 11)</i>	123,272	262,701
Depreciation of right-of-use assets	49,927	32,442
Game development outsourcing costs	38,412	146,994
Bandwidth and server custody fees	35,936	41,052
Cost of physical inventories sold	19,961	19,945
Impairment loss on prepayments to directors, actors and writers	18,732	20,000
Travelling, entertainment and general office expenses	12,064	18,092
Professional service fees	11,904	18,912
Tax surcharge expenses	10,396	9,565
Depreciation of property, plant and equipment	9,598	9,479
Provision for physical inventory obsolescence	5,207	13,567
Auditors' remuneration		
–Audit services	5,315	5,417
–Non-audit services	151	96
Logistic expenses	2,528	2,462
Expense relating to short-term leases	2,278	1,700
Impairment loss on television series and film rights <i>(Note 16)</i>	–	4,343
Others	55,066	46,051
	3,608,919	4,037,377

Notes:

- (a) Promotion and advertising expenses include: 1) pre and post installation promotion expenses that the Group paid to mobile device manufacturers for its operations of unbranded white-label products, and 2) the Group paid to various public accounts in social networking apps for the operations of the Group's online reading contents. These expenses are recorded as "selling and marketing expenses" in the consolidated statement of comprehensive income.

- (b) Content costs mainly consist of 1) other than the initial acquisition of the copyrights from writers, the Group also pays a certain percentage of the revenues earned on such contents posted through its self-owned, self-operated and third-party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements, 2) the direct costs associated with the adaptation rights and scripts that sold by the Group, and 3) the impairment loss on adaptation rights and scripts. These content costs are recorded as “cost of revenues” in the consolidated statement of comprehensive income.
- (c) Research and development expenses (being included in the Group’s general and administrative expenses) for the six months ended June 30, 2022 was approximately RMB281,379,000 (six months ended June 30, 2021: RMB407,358,000), which mainly included employee benefits expenses of research and development function staff.
- (d) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.

7 Other (losses)/gains, net

	Six months ended June 30,	
	2022	2021
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Fair value (loss)/gain of investments in redeemable shares	(369,051)	50,195
Fair value gain/(loss) on contingent consideration payable	112,172	(383,228)
Government subsidies	52,184	38,292
Loss on disposal of a subsidiary	(16,934)	–
Fair value (loss)/gain of investments in other financial assets at fair value through profit or loss	(21,835)	4,842
Compensation received for copyright infringements	3,633	6,253
Gain on sale of a held for sale asset	–	1,076,817
Gain on disposals of intangible assets	–	133,962
Impairment loss of other intangible assets	–	(25,776)
Loss on liquidation of subsidiaries	–	(3,590)
Others, net	4,422	3,379
	(235,409)	901,146

8 Income tax expense

(a) *Cayman Islands corporate income tax (“CIT”)*

The Company was not subject to any taxation in the Cayman Islands for the six months ended June 30, 2022 and 2021.

(b) *Hong Kong profit tax*

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

(c) *PRC corporate income tax*

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

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

The preferential tax rate of 15% is applicable to a certain subsidiary located in certain area of the Mainland of China upon fulfillment of certain requirements of the respective local government.

According to the relevant tax circulars issued by the PRC tax authorities, a certain subsidiary of the Group is subject to a reduced preferential CIT rate of 15% for the periods from 2021 to 2025.

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	86,339	366,673
Deferred income tax	21,821	(82,245)
Income tax expense	108,160	284,428

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	340,436	1,365,378
Share of profit of associates and joint ventures	(120,831)	(115,939)
Tax calculated at PRC statutory tax rate of 25%	54,901	312,360
Effects of respective tax rates applicable to different subsidiaries of the Group	(8,480)	4,542
Unrecognised deferred income tax assets	4,610	44,682
Reversal of deferred income tax liabilities arising from sale of a joint venture	–	(29,840)
Utilisation of previously unrecognised deferred income tax assets	(6,441)	(26,374)
Non-deductible expenses less non-taxable income	89,964	2,713
Research and development tax credit	(26,394)	(23,655)
	<u>108,160</u>	<u>284,428</u>
Income tax expense	<u>108,160</u>	<u>284,428</u>

9 Earnings per share

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the equity holders of the Company	228,545	1,082,742
Weighted average number of ordinary shares outstanding (thousand)	1,011,137	1,005,546
	<u>0.23</u>	<u>1.08</u>
Basic earnings per share (expressed in RMB per share)	<u>0.23</u>	<u>1.08</u>

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

For the six months ended June 30, 2022 and 2021, the Company had the dilutive potential ordinary shares of restricted shares units ("RSUs") granted to employees. For the RSUs, a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs were assumed to have been fully vested and released from restrictions with no impact on earnings.

The impact of potential ordinary shares to be issued by an associate of the Group into ordinary shares of the associate was included in the computation of earnings per share for the six months ended June 30, 2022 and 2021 as the impact would be dilutive.

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the equity holders of the Company	228,545	1,082,742
Impact of an associate's potential ordinary shares	(2,075)	(161)
	<u>226,470</u>	<u>1,082,581</u>
Net profit used to determine earnings per share		
Weighted average number of ordinary shares outstanding (thousand)	1,011,137	1,005,546
Adjustments for share-based compensation – RSUs (thousand)	3,252	9,423
	<u>1,014,389</u>	<u>1,014,969</u>
Weighted average number of ordinary shares for diluted earnings per share (thousand)		
	<u>0.22</u>	<u>1.07</u>

10 Dividends

No dividends was paid or declared by the Company during the six months ended June 30, 2022 and 2021.

11 Intangible assets

	Non- compete	Copyrights	Writers'	Domain	Total			
	Goodwill	agreement	Trademarks	of contents	contracts	Software	names	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>								
Six months ended June 30, 2022								
Opening net book amount as of January 1, 2022	6,632,807	27,590	578,042	199,318	7,332	8,282	2,128	7,455,499
Additions	-	-	2	100,637	-	1,797	-	102,436
Amortisation	-	(7,322)	(10,401)	(94,979)	(7,332)	(3,218)	(20)	(123,272)
Currency translation differences	-	-	-	2,315	-	-	-	2,315
	<u>6,632,807</u>	<u>20,268</u>	<u>567,643</u>	<u>207,291</u>	<u>-</u>	<u>6,861</u>	<u>2,108</u>	<u>7,436,978</u>

	Goodwill	Non- compete agreement	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)								
Six months ended June 30, 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	-	-	377	99,152	-	2,863	-	102,392
Amortisation	-	(7,717)	(10,368)	(235,210)	(7,333)	(2,022)	(51)	(262,701)
Impairment provision	-	-	-	(25,776)	-	-	-	(25,776)
Liquidation of a subsidiary	(4,664)	-	-	-	-	-	-	(4,664)
Currency translation differences	-	-	-	(1,462)	-	-	-	(1,462)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,462)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,462)</u>
Closing net book amount as of June 30, 2021	<u>6,632,807</u>	<u>35,306</u>	<u>587,825</u>	<u>204,589</u>	<u>14,666</u>	<u>6,501</u>	<u>2,158</u>	<u>7,483,852</u>

Impairment tests for goodwill

As of June 30, 2022 and December 31, 2021, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Online business	3,715,659	3,715,659
Acquired TV and film business	<u>2,917,148</u>	<u>2,917,148</u>
	<u>6,632,807</u>	<u>6,632,807</u>

During the six months ended June 30, 2022 and 2021, impairment review on goodwill arising from acquired TV and film business had been conducted by the management according to IAS 36 "Impairment of assets". The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments.

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 June 30, 2022 and June 30, 2021, the recoverable amount of goodwill had been determined based on the value-in-use calculation. The value-in-use calculations adopt cash flow projections derived from expected business operating covering a five-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control processes established by the Group. The management leveraged their extensive experiences in the industries and developed forecasts based on past performance and their expectation of future business projection and market developments.

Based on the results of the impairment assessments, no impairment loss on the goodwill relating to the acquired TV and film business had been recognised as of June 30, 2022 and 2021.

Impairment tests for the copyrights of contents

During the six months ended June 30, 2021, indicators of impairment prevailed for copyrights of contents, following the changes in the overseas market environment of the underlying business. Impairment review on the copyrights of contents owned by a subsidiary of the Group, which was mainly engaged in the operations of an oversea online reading platform, had been conducted by the management as of June 30, 2021 according to IAS 36 “Impairment of assets”. As a result, the recoverable amount of the copyrights determined based on the value-in-use calculations was assessed to be higher than the respective carrying amount. Accordingly, the Group made an impairment provision of approximately RMB25,776,000 against the carrying amount of such copyrights. During the six months ended June 30, 2022, no additional impairment on the above mentioned copyrights of contents had been recognised.

12 Investments in associates and joint ventures

	As of June 30, 2022 RMB’000 (Unaudited)	As of December 31, 2021 RMB’000
Investments in associates (a)	488,425	490,500
Investments in joint ventures (b)	567,236	441,778
	<u>1,055,661</u>	<u>932,278</u>

(a) Investments in associates

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	490,500	248,206
Additions (Note i)	1,903	10,000
Share of net (losses)/profits of associates	(4,627)	1,011
Share of other comprehensive loss of associates	(458)	(2,364)
Currency translation differences	1,107	(25,913)
	<u>488,425</u>	<u>230,940</u>
At the end of the period	<u>488,425</u>	<u>230,940</u>

Note:

- i. During the six months ended June 30, 2022, the Group made an investment in a company engaged in advertising business at a total consideration of approximately RMB1,903,000. As of June 30, 2022, the Group's equity interest in this associate was 30%. The Group has significant influence, but not control over the investee company's operations.

(b) Investments in joint ventures

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	441,778	350,370
Share of net profit of the joint ventures	125,458	114,928
Share of other comprehensive income of a joint venture	–	12
Currency translation differences	–	(177)
	<u>567,236</u>	<u>465,133</u>
At the end of the period	<u>567,236</u>	<u>465,133</u>

13 Financial assets at fair value through profit or loss

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

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

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

FVPL include the following:

	As of June 30, 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
Included in non-current assets:		
Investments in redeemable shares of associates	930,593	1,254,149
Investments in unlisted entities	12,000	12,000
Investment in a listed entity	10,948	14,047
Investments in television series and films	–	29,834
	<u>953,541</u>	<u>1,310,030</u>
Included in current assets:		
Investments in television series and films	4,500	–
	<u>958,041</u>	<u>1,310,030</u>

Movement of FVPL is analysed as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	1,310,030	915,318
Additions (<i>Note i</i>)	18,991	304,593
Changes in fair value recognised as other (losses)/gains, net	(390,886)	55,037
Changes in fair value recognised as revenues	1,897	(1,684)
Disposal	–	(1,497)
Settlement of investment in films (<i>Note ii</i>)	(9,231)	–
Currency translation difference	27,240	(1,525)
	<u>958,041</u>	<u>1,270,242</u>
At the end of the period	<u>958,041</u>	<u>1,270,242</u>

Notes:

- i. In March 2022, the Group invested in redeemable convertible preferred shares of a third-party company that was principally engaged in the designer toys business at a purchase consideration of USD3,000,000 (equivalent to approximately RMB18,991,000), which represented 1.33% equity interest of the investee on an outstanding and fully converted basis.
- ii. The Group invested in certain television series and films operated by third parties. These investments entitle the Group to share certain percentage of income to be generated from the related television series and films based on the Group's investment portion as specified in respective television series and film investment agreements. Since the Group only acts as a financial investor, it is not considered to be involved in the production process and these investments have been accounted for at their fair values. During the six months ended 30 June 2022, the Group shared the income generated from certain television series and films amounting to approximately RMB9,231,000.

14 Financial asset at fair value through other comprehensive income

FVOCI include the following:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Included in non-current assets:		
Investment in a listed entity	8,251	14,073

Movement of FVOCI is analysed as follows:

	Six months ended June 30, 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	14,073	–
Addition	–	33,050
Changes in fair value	(6,571)	5,912
Currency translation difference	749	(412)
At the end of the period	8,251	38,550

15 Inventories

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Adaptation rights and scripts	698,185	593,374
Raw materials	3,415	11,830
Work in progress	1,648	4,260
Inventories in warehouse	32,664	70,539
Inventories held with distributors on consignment	33,630	71,106
Others	3,163	1,859
	<u>772,705</u>	<u>752,968</u>
Less: provision for inventory obsolescence	<u>(34,434)</u>	<u>(99,204)</u>
	<u>738,271</u>	<u>653,764</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 six months ended June 30, 2022, the cost of inventories recognised as expenses amounted to approximately RMB71,210,000 (six months ended June 30, 2021: RMB87,025,000) and the provision for impairment of inventories amounted to approximately RMB31,058,000 (six months ended June 30, 2021: RMB14,589,000). All these expenses and impairment charge have been included in “cost of revenues” in the consolidated statements of comprehensive income.

During the six months ended June 30, 2022, the provision for impairment of inventories as utilised upon the Group’s ultimate sales of the related inventories amounted to approximately RMB7,276,000 (six months ended June 30, 2021: RMB23,870,000). There was not any reversal or over-provision recognised in profit or loss.

16 Television series and film rights

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Television series and film rights		
– production in progress	778,091	813,633
– completed	166,354	277,259
	<u>944,445</u>	<u>1,090,892</u>

	Production in progress RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2022	813,633	277,259	1,090,892
Additions	304,942	–	304,942
Transfer from production in progress to completed	(340,484)	340,484	–
Recognised in cost of revenues (<i>Note a</i>)	–	(451,389)	(451,389)
As of June 30, 2022 (<i>Note b</i>)	778,091	166,354	944,445
	Under production RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2021	586,173	54,323	640,496
Additions	485,582	–	485,582
Transfer from production in progress to completed	(207,822)	207,822	–
Transfer from adaptation rights and scripts to production in progress	48,456	–	48,456
Recognised in cost of revenues (<i>Note a</i>)	–	(223,574)	(223,574)
As of June 30, 2021 (<i>Note b</i>)	912,389	38,571	950,960

Notes:

- (a) During the six months ended June 30, 2022, no impairment loss of television series and film rights had been recognised (six months ended June 30, 2021: RMB4,343,000).
- (b) The balance of television series and film rights production in progress represented costs associated with the production of television series and films including remuneration of the directors, casts and the production crew, costumes, insurance, make-up and hairdressing, as well as rental of camera and lighting equipment etc. Television series and film rights production in progress are transferred to television series and film rights completed upon completion of production.

17 Trade and notes receivables

	As of June 30, 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
Trade receivables	2,525,029	2,895,236
Notes receivables (<i>Note a</i>)	<u>188,910</u>	<u>1,315</u>
	2,713,939	2,896,551
<i>Less: allowance for impairment of trade and notes receivables</i>	<u>(172,637)</u>	<u>(149,311)</u>
	<u>2,541,302</u>	<u>2,747,240</u>

Note:

- (a) During the six months ended June 30, 2022, trade receivables of RMB192,200,000 had been reclassified to notes receivables due to the finance arrangement made by a debtor. As of June 30, 2022, notes receivables of RMB192,200,000 (December 31, 2021: nil) had been discounted for cash with a financial institution with recourse, where substantially the risks and rewards of ownership had not been transferred. Since the Group has continuing involvement in the transferred assets, these discounted notes receivable were therefore not derecognised. Meanwhile, the Group also had short-term bank borrowings of RMB192,200,000 which were secured by the above mentioned notes receivables. The loans carry fixed interest at a rate of 4.2% per annum.

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. The Group also performed assessment on an individual basis, when it becomes aware of an increase in credit risk for the individual financial instrument. 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 their fair value as of June 30, 2022 and December 31, 2021.

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

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Trade and notes receivables		
– Up to 3 months	1,373,002	1,398,814
– 3 to 6 months	458,996	332,890
– 6 months to 1 year	414,314	468,578
– 1 to 2 years	271,922	526,653
– Over 2 years	23,068	20,305
	2,541,302	2,747,240

18 Share-based payments

(a) *RSU schemes of the Group*

The Group has adopted two share award schemes, namely, the 2014 RSU Scheme and the 2020 RSU Scheme. Each RSU is settled by transfer of one ordinary share of the Company to the grantee upon a date as soon as practicable after the RSUs vest.

(i) 2014 RSU Scheme

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 purpose of attracting and retaining the best available personnel, and providing additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 RSU Scheme"). The RSUs granted under the 2014 RSU Scheme would 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 modified the aforesaid vesting condition associated with the 2014 RSU Scheme in a non-beneficial way by adding a non-market performance condition relating to completion of a defined initial public offering of the Company.

On January 17, 2017, the shareholders of the Company approved additional 15,409,901 new ordinary shares be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under the 2014 RSU Scheme became 40,409,091 shares.

Movements in the number of RSUs outstanding under the 2014 RSU Scheme are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2022	7,304,840
Granted	1,781,682
Forfeited	(467,517)
Vested	<u>(968,333)</u>
Outstanding balance as of June 30, 2022	<u><u>7,650,672</u></u>
(Unaudited)	
As of January 1, 2021	10,709,518
Granted	694,455
Forfeited	(1,592,494)
Vested	<u>(1,118,900)</u>
Outstanding balance as of June 30, 2021	<u><u>8,692,579</u></u>

(ii) 2020 RSU Scheme

The Company adopted a share award scheme on May 15, 2020 to the extent of 45,710,177 ordinary shares of the Company have been set aside for the scheme for the purposes of attracting and retaining the suitable personnel, and providing additional incentives to employees, directors and consultants (the “2020 RSU Scheme”). The RSUs granted under the 2020 RSU Scheme shall become vested with respect to 25% of the RSUs on each of the first four anniversaries of the grant date.

Movements in the number of RSUs outstanding under the 2020 RSU Scheme are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2022	4,351,636
Granted	—
Forfeited	(419,548)
Vested	<u>(10,962)</u>
Outstanding balance as of June 30, 2022	<u><u>3,921,126</u></u>
(Unaudited)	
As of January 1, 2021	3,903,928
Granted	81,436
Forfeited	(463,536)
Vested	<u>—</u>
Outstanding balance as of June 30, 2021	<u><u>3,521,828</u></u>

During six months ended June 30, 2022, no RSU was granted to any director of the Company (six months ended June 30, 2021: no RSU was granted to any director 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.

(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, 2022	HKD76.06	7,811,453
Forfeited during the period	HKD82.85	(59,061)
As of June 30, 2022	<u>HKD76.00</u>	<u>7,752,392</u>
Exercisable as of June 30, 2022	<u>HKD82.85</u>	<u>1,268,750</u>

During the six months ended June 30, 2022, no option was granted or exercised.

(ii) Outstanding share options

Details of the expiry dates, exercise prices and respective numbers of share options which remained outstanding as of June 30, 2022 and December 31, 2021 are as follows:

Grant Date	Expiry Date	Exercise price	Number of share option	
			June 30, 2022	December 31, 2021
July 12, 2021	July 12, 2031	HKD 82.85	5,965,853	6,024,914
November 5, 2021	November 5, 2031	HKD 53.14	<u>1,786,539</u>	<u>1,786,539</u>
Total			<u><u>7,752,392</u></u>	<u><u>7,811,453</u></u>
Weighted average remaining contractual life of options outstanding at end of period			<u><u>9.09 years</u></u>	<u><u>9.01 years</u></u>

The outstanding share options as of June 30, 2022 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.

(c) ***Expected Retention Rate***

The Group has to estimate the Expected Retention Rate at the end of the vesting periods of the RSUs and share options in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of June 30, 2022, the Expected Retention Rate of the Group was assessed to be no lower than 92% (June 30, 2021: 100%).

19 Borrowings

	As of June 30, 2022 RMB'000 <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
Non-current		
Unsecured		
USD bank borrowings <i>(Note a)</i>	—	382,542
Current		
Unsecured		
RMB bank borrowings <i>(Note b)</i>	—	792,776
USD bank borrowings <i>(Note a)</i>	402,684	—
Secured		
Advances drawn on notes receivables discounted with recourse <i>(Note 17(a))</i>	192,200	—
	594,884	792,776
	594,884	1,175,318

Note:

- (a) As of June 30, 2022 and December 31, 2021, the Group's unsecured long-term bank borrowings consisted of USD60,000,000 fixed rate borrowings bearing interest rate at 1.41% per annum, which would be repayable on February 28, 2023. The borrowings were reclassified to current liabilities as they would be repayable within 12 months after June 30, 2022.
- (b) As of December 31, 2021, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 fixed rate borrowings bearing interest rate at 5.70% per annum. The long-term borrowings 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, and the full amount had been repaid during the six months ended June 30, 2022.

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

The Group had complied with all of the financial covenants of its borrowing facilities for the six months ended June 30, 2022 and 2021.

20 Trade payables

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

	As of June 30, 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2021 <i>RMB'000</i>
– Up to 3 months	471,946	560,438
– 3 to 6 months	154,222	144,581
– 6 months to 1 year	229,411	134,000
– Over 1 year	333,299	288,349
	1,188,878	1,127,368

DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2022 (2021: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Corporate Governance Code

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

For the six months ended June 30, 2022, the Company has complied with all applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries by the Company, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2022.

Audit Committee

The Audit Committee, together with the Board and the Auditor has reviewed the unaudited interim results of the Group for the six months ended June 30, 2022. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and Internal Control Systems of the Company, and considered the risk management and Internal Control Systems to be effective and adequate.

Publication of the Results Announcement and Interim Report

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

APPRECIATION

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

By Order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell

Chairman of the Board and Non-Executive Director

Hong Kong, August 15, 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

“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Board”	:	the board of Directors of the Company;
“CG Code”	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
“China” or the “PRC”	:	the People’s Republic of China;
“Company”, “our Company”, “the Company” 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;
“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;
“GMV”	:	gross merchandise value, the total value of all orders for products placed on;
“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)”	:	previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
“our online literature platform”, or “our platform”	:	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 six months ended June 30, 2022;
“RMB”	:	the lawful currency of the PRC;

“RSU(s)”	:	restricted stock unit(s);
“SGD”	:	the lawful currency of Singapore;
“Share(s)”	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
“Shareholders”	:	holder(s) of our Share(s);
“Shenzhen Lanren”	:	Shenzhen Lanren Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012;
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Tencent”	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700); and
“USD”	:	the lawful currency of the United States.