阅文集团

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023 AND ISSUE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

The board of directors of China Literature Limited hereby announces the audited consolidated results of the Group for the year ended December 31, 2023. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	2023	2022	Year-over-year
	RMB'000	*RMB'000*	*(%)*
Revenues	**7,011,785**	7,625,622	**-8.0%**
Gross profit	**3,371,463**	4,030,103	**-16.3%**
Operating profit	**709,309**	628,834	**12.8%**
Profit before income tax	**901,397**	773,820	**16.5%**
Profit for the year	**803,547**	607,628	**32.2%**
Profit attributable to equity holders of the Company	**804,879**	608,186	**32.3%**
Non-IFRS profit attributable to equity holders of the Company	**1,130,379**	1,348,216	**-16.2%**

BUSINESS REVIEW AND OUTLOOK

IP Creation

Our online reading business continues to make significant progress, adding 380,000 writers, 670,000 literary works, and more than 39 billion Chinese characters of content in 2023. New writers in particular are making a significant impact. The number of new writers whose books generated more than RMB100,000 in annual revenue increased by 60% in 2023 year-over-year. Among the new books with over RMB1 million in revenue in 2023, nearly a third were written by our new writers. In addition, the number of works written by writers born after the year 2000 with more than 10,000 average subscribers per chapter soared by 230% year-over-year.

Our growing library of creators and literary works continues to drive content quality to new heights. In 2023, the number of literary works that newly reached 100,000 average subscribers per chapter across the platform increased 125% year-over-year, and various other subscription records were broken. Our enhanced middle office, dedicated to nurturing and supporting our content creation ecosystem, is fueling this surge. This includes:

- Anti-piracy measures which have continued to achieve breakthroughs. Throughout the year, we championed creativity by removing 1.1 million links to pirated content to safeguard authors' interests, boost subscription numbers, and foster a healthier content ecosystem.

- Our proprietary "Smart Pen Edition for the Author Assistant Application," leveraging our "Smart Pen" Large Language Model (LLM), is now accessible to all contracted writers. This cutting-edge tool sets a new benchmark in online literature creation. The weekly engagement rate with its AI features has reached 30%.

- Our innovative approach to building an interactive user community has strengthened the bond between our readers and our IP. In 2023, the number of new literary works with over one million user comments grew 67% year-over-year while the number of literary works with more than 100,000 monthly user votes grew 66% year-over-year. MPUs also grew nicely in 2023, increasing 10.1% year-over-year to 8.7 million.

IP Visualization

In 2023, We continued to advance the visualization of our IP, offering our users a diverse selection of high-quality works.

- In the live action TV and film segment, following the debuts of "The Road to Ordinary (平凡之路)" and "In Spite of the Strong Wind (縱有疾風起)" in the first half of the year, we released a number of drama series in the second half, such as "Sunshine by My Side (驕陽伴我)" and "The Infiltrator (潛行者)." Among these, "Sunshine by My Side (驕陽伴我)" ranked first in daily viewership across all channels for 16 consecutive days, according to Kuyun. "The Infiltrator (潛行者)" ranked first in prime-time drama series ratings nationwide during its broadcast run, according to metrics from China Audio Video Big Data.

- In the animation segment, new seasons for classic IP franchises including "Battle Through the Heavens(斗破蒼穹)," "Stellar Transformations(星辰變)," "Almighty Mage(全職法師)" and "Martial Universe(武動乾坤)" were released during the period as well as the new animated series "Transcending the Nine Heavens(傲世九重天)" and "Mysterious Treasures(神藏)." Each of these titles was released to widespread praise from audiences. In particular, the 52-week season of "Battle Through the Heavens(斗破蒼穹)" was a fan favorite, dominating Weibo's domestic animation popularity rankings for three months straight, maintaining its position as the most popular animated series on the Chinese internet. Our animated works continued to lead the market in terms of quantity, quality and hit rate. According to Enlightent, six of the top ten most-streamed online animated series in 2023 were adapted from China Literature IP.

- In the comics segment, 13 of our newly released adapted comic series broke the 100 million benchmark in popularity in 2023. In addition, the acquisition of the assets of Tencent Animation and Comics will further enrich our portfolio of IP including top Chinese comic IPs such as "The Outcast(一人之下)" and "The Fox Spirit Matchmaker(狐妖小紅娘)." The move also bolsters our pipeline of comic adaptations and expands our production capacity for animated series. Going forward, we plan to leverage AI technologies to enhance the adaptation of online literature into animated series and comics, accelerate the adaptation process of text-based IPs into visual formats and enhance the efficiency of content commercialization.

IP Commercialization and Monetization

- In the IP merchandise segment, we unveiled a diverse array of trendy collectibles and merchandise based on popular IPs such as "Lord of the Mysteries(詭秘之主)," "The King's Avatar(全職高手)" and "Battle Through the Heavens(斗破蒼穹)." We have a bunch of products including blind boxes, toy collectables, accessories and cards, all of which are highly sought-after. We've also broadened our IP licensing, collaborating with a diverse array of consumer brands across multiple industries such as digital 3C products, food and beverages, and automotive. This has been highly popular and is effectively driving sales for our partners. In 2024, we plan to enter new merchandise categories and explore synergies between our merchandise and various content formats. By strategically timing our merchandise launches with the release of the associated film, TV series and animated series, we aim to amplify the hype surrounding our IPs.

- In the games segment, licensed games based on our popular IPs were successfully launched in 2023 including "A Record of a Mortal's Journey to Immortality(凡人修仙傳)" and "Swallowed Star(吞噬星空)". This will be followed up with the expected launch of several other licensed games this year, including "Soul Land(斗羅大陸)," "Battle Through the Heavens(斗破蒼穹)" and "Cultivation Chat Group(聊天群的日常生活)" which have all received regulatory approval. In terms of in-house game operations, we launched expansion packs with enhanced graphics and interactive features for our classic game "New Soul Land(新斗羅大陸)". We will continue to roll out upgrades and improved gameplay to ensure our players have an exceptional gaming experience.

Innovation in Technology and Business

We have long maintained the conviction that only through innovation can we make true breakthroughs. In 2023, we identified several new opportunities which we will take advantage of.

- As previously mentioned, we launched the first LLM designed specifically for the online literature industry, “Smart Pen,” and the “Smart Pen Edition for the Author Assistant Application,” which will support writers with various aspects of content creation. As AI technology continues to evolve, we see its potential to unlock significant value in our IP. AI promises to open doors for the adaption of a wider range of literary works, accelerate the transformation from text to visual formats, and pave the way for faster commercialization.

- We've officially entered the high-quality short drama segment with the rollout of our “Short Drama Star Incubation Plan.” This initiative will support more than 100 short drama series by establishing a creative fund with over RMB100 million, as well as pioneer the interactive short drama format. So far, several of our short drama series have surpassed RMB10 million in gross revenue.

- We continued to expand into overseas markets. By the end of 2023, our foreign language online reading platform, WebNovel, offered around 3,800 works translated from Chinese and about 620,000 original works created locally. We continued to enhance our AI translation models throughout the year, leading to a wealth of top-tier works being translated. In December 2023, AI-translated works accounted for 21 of the top 100 bestsellers on WebNovel. AI-driven translation is the catalyst for our multilingual expansion overseas and we expect it will continue to drive our growth and establish competitive advantages in specific genres in key overseas regions.

OUTLOOK

We are confident that 2024 will be a year of blockbusters for China Literature. At present, the number of pre-registration for “Joy of Life 2（慶餘年2）” has exceeded 12 million, making the drama series the first to pass the 10 million pre-registration threshold across all platforms. In Tencent Video’s most anticipated list, we have three drama series ranking among the top 10, including “Joy of Life 2（慶餘年2）,” “The Legend of Shen Li（與鳳行）” and “Dafeng Guardian（大奉打更人）.” In an evolving industry, China Literature stands ready, armed with a portfolio of high-quality content, ecosystem partnerships and cutting-edge technologies. Our commitment to our foundational values – content, platform and IP – remains steadfast as we continue to create good stories that will live forever.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

	Year Ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Revenues	**7,011,785**	7,625,622
Cost of revenues	**(3,640,322)**	(3,595,519)
Gross profit	**3,371,463**	4,030,103
Interest income	**166,316**	160,893
Other gains/(losses), net	**11,493**	(207,077)
Selling and marketing expenses	**(1,719,519)**	(2,002,614)
General and administrative expenses	**(1,161,035)**	(1,238,177)
Net reversal of/(provision for) impairment losses on financial assets	**40,591**	(114,294)
Operating profit	**709,309**	628,834
Finance costs, net	**(12,891)**	(53,985)
Share of net profit of associates and joint ventures	**204,979**	198,971
Profit before income tax	**901,397**	773,820
Income tax expense	**(97,850)**	(166,192)
Profit for the year	**803,547**	607,628
Attributable to:		
Equity holders of the Company	**804,879**	608,186
Non-controlling interests	**(1,332)**	(558)
	803,547	607,628
Non-IFRS profit for the year	**1,129,047**	1,347,658
Attributable to:		
Equity holders of the Company	**1,130,379**	1,348,216
Non-controlling interests	**(1,332)**	(558)
	1,129,047	1,347,658

Revenues. Revenues decreased by 8.0% to RMB7,011.8 million for the year ended December 31, 2023 on a year-over-year basis. The following table sets out our revenues by segment for the years ended December 31, 2023 and 2022:

	Year ended December 31,			
	2023		2022	
	RMB'000	***%***	*RMB'000*	*%*
Online business[1]				
On our self-owned platform products	**3,413,896**	**48.7**	3,482,873	45.7
On our channels on Tencent products	**341,652**	**4.9**	590,971	7.7
On third-party platforms	**192,591**	**2.7**	290,153	3.8
Subtotal	**3,948,139**	**56.3**	4,363,997	57.2
Intellectual property operations and others[2]				
Intellectual property operations	**2,973,819**	**42.4**	3,160,237	41.4
Others	**89,827**	**1.3**	101,388	1.4
Subtotal	**3,063,646**	**43.7**	3,261,625	42.8
Total revenues	**7,011,785**	**100.0**	7,625,622	100.0

Notes:

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

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

– Revenues from online business decreased by 9.5% to RMB3,948.1 million for the year ended December 31, 2023 on a year-over-year basis, accounting for 56.3% of total revenues.

  Revenues from online business on our self-owned platform products decreased by 2.0% year-over-year to RMB3,413.9 million for the year ended December 31, 2023, mainly due to our continuous efforts to move away from low-ROI distribution channels and improve the operational efficiency of our online reading business. In addition to narrowing our distribution channels, we focused on producing high-quality content, implementing effective anti-piracy measures, and improving core product operations. These efforts drove solid performance in a number of areas; for example, Qidian Reading, one of our flagship products, saw revenue growth of approximately 40% year-over-year.

Revenues from online business on our channels on Tencent products decreased by 42.2% year-over-year to RMB341.7 million for the year ended December 31, 2023. The decrease in revenue was partly due to steps we took to refine our content distribution practices, as we chose to distribute more content through our core pay-to-read products with higher ROI, leading to a decrease in advertising revenues. The decline was also influenced by initiatives we took to optimize distribution channels on Tencent products.

Revenues from online business on third-party platforms decreased by 33.6% year-over-year to RMB192.6 million for the year ended December 31, 2023, primarily due to the suspension of collaboration with certain third-party distribution partners.

The following table summarizes our key operating data for the years ended December 31, 2023 and 2022:

	Year ended December 31,	
	2023	2022
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**205.6 million**	243.9 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	**8.7 million**	7.9 million
Monthly average revenue per paying user ("ARPU")[1]	**RMB32.5**	RMB37.8

Notes:

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

- Average MAUs on our self-owned platform products and self-operated channels decreased by 15.7% year-over-year from 243.9 million to 205.6 million for the year ended December 31, 2023. Specially, MAUs on our self-owned platform products decreased by 4.7% year-over-year from 110.0 million to 104.8 million, mainly due to our decision to cut marketing spending on low-ROI user acquisition channels as part of our overall efforts to improve operational efficiency. At the same time, we intensified our efforts to engage our core user base, as evidenced by the continued year-over-year growth in MAUs of our flagship reading product, Qidian Reading. MAUs on our self-operated channels on Tencent products decreased by 24.7% year-over-year from 133.9 million to 100.8 million, primarily due to our efforts to optimize content offerings and distribution channels to enhance our operational efficiency.

- Average MPUs on our self-owned platform products and self-operated channels increased by 10.1% year-over-year from 7.9 million to 8.7 million for the year ended December 31, 2023. In particular, MPUs on our self-owned platform products increased by over 20% year-over-year, reflecting the positive results of our ongoing and effective anti-piracy measures, enhanced product operation capabilities, and consistent delivery of high-quality content.

- Monthly ARPU for our pay-to-read content decreased by 14.0% year-over-year from RMB37.8 to RMB32.5 for the year ended December 31, 2023. The decrease was due to changes in the revenue mix resulting from various product offerings and a lower user expenditure from some newly converted paying users at the initial stage of their payment cycle.

– Revenues from intellectual property operations and others decreased by 6.1% year-over-year to RMB3,063.6 million for the year ended December 31, 2023.

Revenues from intellectual property operations decreased by 5.9% year-over-year to RMB2,973.8 million for the year ended December 31, 2023. The decrease was mainly due to reduced revenues from NCM, as fewer total number of drama series and film projects were released in 2023, compared with 2022. Excluding the impact of NCM, revenues from intellectual property operations grew over 10% year-over-year, mainly driven by increased revenues from our licensing of copyrights, self-operated online games, and animated series.

Revenues from others decreased by 11.4% year-over-year to RMB89.8 million for the year ended December 31, 2023. These revenues were mainly generated by sales of physical books.

Cost of revenues. Cost of revenues increased slightly by 1.2% year-over-year to RMB3,640.3 million for the year ended December 31, 2023, compared with RMB3,595.5 million for the year ended December 31, 2022. The increase was mainly due to an increase in content costs as we boosted investment in high-quality content during 2023, which was mostly offset by (i) a reduction in production costs related to TV series, web series, and films as fewer drama series and film projects were released during the year; (ii) lower platform distribution costs for our online business; and (iii) a decrease in amortization of intangible assets associated with content copyrights.

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

	Year ended December 31,			
	2023		2022	
	RMB'000	***% of revenues***	*RMB'000*	*% of revenues*
Content costs	**1,646,031**	**23.5**	1,512,746	19.8
Platform distribution costs	**808,135**	**11.5**	850,211	11.1
Production costs of TV, web and animated series and films	**631,418**	**9.0**	660,152	8.7
Amortization of intangible assets	**147,642**	**2.1**	221,125	2.9
Cost of inventories	**78,643**	**1.1**	57,153	0.7
Others	**328,453**	**4.7**	294,132	4.0
Total cost of revenues	**3,640,322**	**51.9**	3,595,519	47.2

Gross profit and gross margin. As a result of the foregoing, our gross profit decreased by 16.3% year-over-year to RMB3,371.5 million for the year ended December 31, 2023. Gross margin was 48.1% for the year ended December 31, 2023, compared with 52.8% for the year ended December 31, 2022.

Interest income. Interest income increased by 3.4% year-over-year to RMB166.3 million for the year ended December 31, 2023, reflecting greater interest income from bank deposits.

Other gains/(losses), net. We recorded net other gains of RMB11.5 million for the year ended December 31, 2023, compared with net other losses of RMB207.1 million for the year ended December 31, 2022. The year-over-year difference was mainly due to net fair value changes related to certain investee companies and acquisitions.

Selling and marketing expenses. Selling and marketing expenses decreased by 14.1% year-over-year to RMB1,719.5 million for the year ended December 31, 2023, as a result of (i) reduced promotion and advertising expenses for our online business as a part of our cost control and efficiency improvement initiatives; and (ii) a decrease in marketing expenses associated with drama series and film promotion, due to the lower total number of releases in 2023. As a percentage of revenues, our selling and marketing expenses decreased to 24.5% for the year ended December 31, 2023 from 26.3% for the year ended December 31, 2022.

General and administrative expenses. General and administrative expenses decreased by 6.2% year-over-year to RMB1,161.0 million for the year ended December 31, 2023, primarily attributable to reduced expenses associated with employee benefits. As a percentage of revenues, general and administrative expenses were 16.6% for the year ended December 31, 2023, compared with 16.2% for the year ended December 31, 2022.

Net reversal of/(provision for) impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the year ended December 31, 2023, we reversed a provision for doubtful receivables of RMB40.6 million on a net basis, mainly related to IP businesses.

Operating profit. As a result of the foregoing, operating profit increased by 12.8% year-over-year to RMB709.3 million for the year ended December 31, 2023.

Finance costs. Finance costs decreased by 76.1% year-over-year to RMB12.9 million for the year ended December 31, 2023, primarily due to lower interest expenses in 2023.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased by 3.0% year-over-year to RMB205.0 million for the year ended December 31, 2023, reflecting higher net profits contributed by investee companies.

Income tax expense. Income tax expense was RMB97.9 million for the year ended December 31, 2023, compared with RMB166.2 million for the year ended December 31, 2022, primarily due to changes in taxable income.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 32.3% year-over-year to RMB804.9 million for the year ended December 31, 2023.

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 years ended December 31, 2023 and 2022:

	Year ended December 31, 2023		
	Online business *RMB'000*	**Intellectual property operations and others** *RMB'000*	**Total** *RMB'000*
Segment revenues	**3,948,139**	**3,063,646**	**7,011,785**
Cost of revenues	**1,983,546**	**1,656,776**	**3,640,322**
Gross profit	**1,964,593**	**1,406,870**	**3,371,463**
Gross margin	**49.8%**	**45.9%**	**48.1%**

	Year ended December 31, 2022		
	Online business *RMB'000*	Intellectual property operations and others *RMB'000*	Total *RMB'000*
Segment revenues	4,363,997	3,261,625	7,625,622
Cost of revenues	2,217,233	1,378,286	3,595,519
Gross profit	2,146,764	1,883,339	4,030,103
Gross margin	49.2%	57.7%	52.8%

OTHER FINANCIAL INFORMATION

	Year Ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
EBITDA[1]	**829,523**	1,052,762
Adjusted EBITDA[2]	**1,017,926**	1,350,632
Adjusted EBITDA margin[3]	**14.5%**	17.7%
Interest expense	**19,658**	48,063
Net cash[4]	**8,101,432**	7,091,379
Capital expenditures[5]	**177,359**	323,650

Notes:

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

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

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

(4) Net cash is calculated as cash and cash equivalents, plus term deposits and others, 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 years presented:

	Year Ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Operating profit	**709,309**	628,834
Adjustments:		
Interest income	**(166,316)**	(160,893)
Other (gains)/losses, net	**(11,493)**	207,077
Depreciation of property, plant and equipment	**33,378**	21,414
Depreciation of right-of-use assets	**81,956**	95,124
Amortization of intangible assets	**182,689**	261,206
EBITDA	**829,523**	1,052,762
Adjustments:		
Share-based compensation	**131,467**	241,344
Expenditures related to acquisition	**56,936**	56,526
Adjusted EBITDA	**1,017,926**	1,350,632

Non-IFRS Financial Measures:

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

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

The following tables set out the reconciliations of our Group's non-IFRS financial measures for the years ended December 31, 2023 and 2022 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31, 2023					
		Adjustments				
	As reported	**Share-based compensation**	**Net losses from investments and acquisitions[(1)]**	**Amortization of intangible assets[(2)]**	**Tax effect**	**Non-IFRS**
			(RMB' 000, unless specified)			
Operating profit	**709,309**	**131,467**	**188,867**	**20,171**	**–**	**1,049,814**
Profit for the year	**803,547**	**131,467**	**182,167**	**20,171**	**(8,305)**	**1,129,047**
Profit attributable to equity holders of the Company	**804,879**	**131,467**	**182,167**	**20,171**	**(8,305)**	**1,130,379**
EPS *(RMB per share)*						
– basic	**0.80**					**1.12**
– diluted	**0.79**					**1.11**
Operating margin	**10.1%**					**15.0%**
Net margin	**11.5%**					**16.1%**

	Year ended December 31, 2022					
		Adjustments				
	As reported	Share-based compensation	Net losses from investments and acquisitions[(1)]	Amortization of intangible assets[(2)]	Tax effect	Non-IFRS
			(RMB' 000, unless specified)			
Operating profit	628,834	241,344	461,580	32,178	–	1,363,936
Profit for the year	607,628	241,344	469,380	32,178	(2,872)	1,347,658
Profit attributable to equity holders of the Company	608,186	241,344	469,380	32,178	(2,872)	1,348,216
EPS *(RMB per share)*						
– basic	0.60					1.33
– diluted	0.59					1.32
Operating margin	8.2%					17.9%
Net margin	8.0%					17.7%

Notes:

(1) Mainly includes net disposal gain, impairment provision 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 continued to maintain a healthy and sound financial position. Our total assets increased from RMB22,734.5 million as of December 31, 2022 to RMB23,188.5 million as of December 31, 2023, while our total liabilities decreased from RMB4,779.8 million as of December 31, 2022 to RMB4,164.0 million as of December 31, 2023. The liabilities-to-assets ratio decreased from 21.0% as of December 31, 2022 to 18.0% as of December 31, 2023.

As of December 31, 2023, the current ratio (the ratio of total current assets to total current liabilities) was 311.5%, compared with 313.2% as of December 31, 2022.

As of December 31, 2023 and December 31, 2022, our Group had no pledged receivables.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders and cash generated from our operations. As of December 31, 2023, our Group had net cash of RMB8,101.4 million, compared with RMB7,091.4 million as of December 31, 2022. The increase in net cash in the year of 2023 was mainly due to the cash generated from our operating activities, partially offset by capital expenditures, cash outflow for investment activities, and the earn-out cash consideration paid for the acquisition of NCM based on its 2022 financial performance. For the year ended December 31, 2023, our Group had free cash flow of RMB872.8 million. This was a result of net cash flow generated from operating activities of RMB1,131.5 million, deducting payments for lease liabilities of RMB81.3 million and payments for capital expenditures of RMB177.4 million. Our bank balances and term deposits are primarily in RMB, USD and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of December 31, 2023:

- Our gearing ratio was 0.1%, compared with 2.3% as of December 31, 2022.
- Our total borrowings were RMB10.0 million, which were denominated in RMB.
- Our unutilized banking facility was RMB1,620.0 million.

As of December 31, 2023 and December 31, 2022, our Group had no significant contingent liabilities.

As of December 31, 2023 and December 31, 2022, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as content and software copyrights, and for property, plant and equipment. Our capital expenditures and long-term investments for the year ended December 31, 2023 totaled RMB274.8 million, compared with RMB575.5 million for the year ended December 31, 2022, representing a year-over-year decrease of RMB300.7 million, primarily due to the reduction in expenditures for investments, intangible assets as well as property, plant and equipment. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in RMB, HKD and USD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure and tries to minimize exposure through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any movement in foreign currency during the years ended December 31, 2023 and December 31, 2022.

Employees

As of December 31, 2023, we had approximately 1,700 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

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

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

On October 31, 2018, the Company completed the acquisition of 100% of the equity interest in NCM, which is primarily engaged in production and distribution of TV series, web series and films in the PRC. NCM, on a standalone basis, recorded RMB1,260.2 million in revenues and RMB487.2 million in profit attributable to equity holders of the company for the year ended December 31, 2023.

Issue of consideration shares under the New Earn Out Mechanism

Reference is made to:

(i) the announcement of the Company dated August 27, 2020 and the circular of the Company dated November 10, 2020 (the "Circular") in respect of the entering into of the Supplemental SPA Deed in relation to, among others, the amendment of the 2018 NCM Share Purchase Agreement;

(ii) the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 in respect of, among others, the acquisition of the entire equity interest of NCM, which was completed on October 31, 2018;

(iii) the announcements of the Company dated March 18, 2019 and March 17, 2020 in respect of, among others, the adjustment results under the Original Earn Out Mechanism for the year ended December 31, 2018 and 2019; and

(iv) the announcements of the Company dated March 23, 2021, March 22, 2022, and March 16, 2023 in respect of, among others, the issue of Consideration Shares under the New Earn Out Mechanism.

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

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

The Board hereby announces that the actual Net Profit, as defined in the Circular and primarily excluding the impact of government subsidies for the year ended December 31, 2023, was RMB450.2 million, which is greater than the Reference Minimum Net Profit of RMB300 million. In accordance with the terms of the Supplemental SPA Deed, a maximum number of 2,719,754 Consideration Shares would be issued ("2023 Earn Out Issue") and maximum cash consideration of RMB183.7 million would be paid to the Management Vendors.

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of this announcement and immediately upon the completion of the 2023 Earn Out Issue:

	As of the date of this announcement		**Immediately upon the completion of the 2023 Earn Out Issue**	
Shareholders	**Number of Shares**	**Approximate % of issued Shares**	**Number of Shares**	**Approximate % of issued Shares**
Tencent	577,643,604	56.44%	577,643,604	56.29%
Management Vendors				
– Founder SPV	31,443,038	3.07%	33,095,078	3.23%
– Qu SPV	8,864,752	0.87%	9,607,967	0.94%
– Executive SPV	5,225,853	0.51%	5,550,352	0.54%
Other Shareholders	400,216,230	39.11%	400,216,230	39.00%
Total	1,023,393,477	100.00%	1,026,113,231	100.00%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023

		Year ended December 31,	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenues	*4*	**7,011,785**	7,625,622
Cost of revenues	*5*	**(3,640,322)**	(3,595,519)
Gross profit		**3,371,463**	4,030,103
Interest income	*8*	**166,316**	160,893
Other gains/(losses), net	*6*	**11,493**	(207,077)
Selling and marketing expenses	*5*	**(1,719,519)**	(2,002,614)
General and administrative expenses	*5*	**(1,161,035)**	(1,238,177)
Net reversal of/(provision for) impairment losses on financial assets		**40,591**	(114,294)
Operating profit		**709,309**	628,834
Finance costs, net	*7*	**(12,891)**	(53,985)
Share of net profit of associates and joint ventures	*13*	**204,979**	198,971
Profit before income tax		**901,397**	773,820
Income tax expense	*9*	**(97,850)**	(166,192)
Profit for the year		**803,547**	607,628
Other comprehensive income:			
Items that may not be reclassified to profit or loss			
Net loss from change in fair value of financial asset at fair value through other comprehensive income		**(4,312)**	(7,483)
Currency translation differences		**66,421**	54,773
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive (loss)/income of associates and joint ventures	*13*	**(647)**	4,656
Currency translation differences		**(21,663)**	62,861
Total comprehensive income for the year		**843,346**	722,435

		Year ended December 31,	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Profit attributable to:			
– Equity holders of the Company		**804,879**	608,186
– Non-controlling interests		**(1,332)**	(558)
		803,547	607,628
Total comprehensive income attributable to:			
– Equity holders of the Company		**844,644**	722,794
– Non-controlling interests		**(1,298)**	(359)
		843,346	722,435
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	*10(a)*	**0.80**	0.60
– Diluted earnings per share	*10(b)*	**0.79**	0.59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

		As of December 31,	
		2023	2022
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**128,327**	132,858
Right-of-use assets		**207,675**	183,141
Intangible assets	*12*	**7,330,124**	7,421,639
Investments in associates and joint ventures	*13*	**924,683**	1,008,754
Financial assets at fair value through profit or loss	*14*	**856,047**	862,241
Financial asset at fair value through other comprehensive income		**4,071**	8,009
Term deposits		**1,829,000**	–
Deferred income tax assets		**394,121**	312,283
Prepayments, deposits and other assets		**291,608**	329,641
		11,965,656	10,258,566
Current assets			
Inventories	*15*	**743,660**	760,271
Television series and film rights	*16*	**995,078**	940,412
Financial assets at fair value through profit or loss	*14*	**2,442,719**	119,329
Trade and notes receivables	*17*	**1,988,200**	2,048,930
Prepayments, deposits and other assets		**1,212,607**	1,212,544
Term deposits		**1,038,739**	1,848,660
Cash and cash equivalents		**2,801,796**	5,545,766
		11,222,799	12,475,912
Total assets		**23,188,455**	22,734,478
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**650**	644
Shares held for RSU schemes		**(16,647)**	(18,766)
Share premium		**16,312,648**	16,223,277
Other reserves		**2,173,341**	1,955,121
Retained earnings/(accumulated losses)		**554,953**	(202,938)
		19,024,945	17,957,338
Non-controlling interests		**(538)**	(2,616)
Total equity		**19,024,407**	17,954,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

		As of December 31,	
		2023	2022
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**153,182**	134,595
Long-term payables		**1,151**	4,691
Deferred income tax liabilities		**134,520**	139,563
Deferred revenue	*4*	**24,231**	26,538
Financial liabilities at fair value through profit or loss		**247,830**	490,613
		560,914	796,000
Current liabilities			
Borrowings	*18*	**10,000**	417,876
Lease liabilities		**74,921**	65,505
Trade payables	*19*	**1,119,714**	1,203,873
Other payables and accruals		**997,662**	1,019,435
Deferred revenue	*4*	**879,250**	619,125
Current income tax liabilities		**266,444**	275,780
Financial liabilities at fair value through profit or loss		**255,143**	382,162
		3,603,134	3,983,756
Total liabilities		**4,164,048**	4,779,756
Total equity and liabilities		**23,188,455**	22,734,478

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Attributable to equity holders of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU schemes *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (accumulated losses) *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
As of January 1, 2023	**644**	**16,223,277**	**(18,766)**	**1,955,121**	**(202,938)**	**17,957,338**	**(2,616)**	**17,954,722**
Comprehensive income								
Profit/(loss) for the year	–	–	–	–	804,879	804,879	(1,332)	803,547
Other comprehensive income								
– Share of other comprehensive loss of associates *(Note 13)*	–	–	–	(647)	–	(647)	–	(647)
– Currency translation differences	–	–	–	44,724	–	44,724	34	44,758
– Net loss from change in fair value of financial asset at fair value through other comprehensive income	–	–	–	(4,312)	–	(4,312)	–	(4,312)
Total comprehensive income/(loss) for the year	–	–	–	39,765	804,879	844,644	(1,298)	843,346
Transaction with owners								
Share-based compensation expenses *(Note 20)*	–	–	–	131,467	–	131,467	–	131,467
Transfer of vested RSUs	–	(27,453)	2,122	–	–	(25,331)	–	(25,331)
Issue of new share pursuant to RSU scheme	3	–	(3)	–	–	–	–	–
Issue of ordinary shares as consideration for a business combination	3	116,824	–	–	–	116,827	–	116,827
Profit appropriations to statutory reserves	–	–	–	46,988	(46,988)	–	–	–
Capital injection	–	–	–	–	–	–	3,376	3,376
Transactions with owners in their capacity for the year	6	89,371	2,119	178,455	(46,988)	222,963	3,376	226,339
As of December 31, 2023	650	16,312,648	(16,647)	2,173,341	554,953	19,024,945	(538)	19,024,407

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Attributable to equity holders of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU schemes *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
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/(loss) for the year	–	–	–	–	608,186	608,186	(558)	607,628
Other comprehensive income								
– Share of other comprehensive loss of associates *(Note 13)*	–	–	–	(393)	–	(393)	–	(393)
– Transfer from share of other comprehensive loss to profit or loss upon disposal of an associate	–	–	–	5,049	–	5,049	–	5,049
– Currency translation differences	–	–	–	117,435	–	117,435	199	117,634
– Net loss from change in fair value of financial asset at fair value through other comprehensive income	–	–	–	(7,483)	–	(7,483)	–	(7,483)
Total comprehensive income/(loss) for the year	–	–	–	114,608	608,186	722,794	(359)	722,435
Transaction with owners								
Share-based compensation expenses *(Note 20)*	–	–	–	241,344	–	241,344	–	241,344
Transfer of vested RSUs	–	(27,605)	874	–	–	(26,731)	–	(26,731)
Repurchase and cancellation of shares	(7)	(211,825)	–	–	–	(211,832)	–	(211,832)
Repurchase of shares for RSU scheme	–	–	(2,189)	–	–	(2,189)	–	(2,189)
Issue of new share pursuant to RSU scheme	1	–	(1)	–	–	–	–	–
Issue of ordinary shares as consideration for a business combination	1	49,979	–	–	–	49,980	–	49,980
Profit appropriations to statutory reserves	–	–	–	146,551	(146,551)	–	–	–
Disposal of a non-wholly owned subsidiary	–	–	–	–	–	–	(1,357)	(1,357)
Capital injection	–	–	–	–	–	–	1,000	1,000
Acquisition of non-controlling interests	–	–	–	(2,483)	–	(2,483)	(2,416)	(4,899)
Transactions with owners in their capacity for the year	(5)	(189,451)	(1,316)	385,412	(146,551)	48,089	(2,773)	45,316
As of December 31, 2022	644	16,223,277	(18,766)	1,955,121	(202,938)	17,957,338	(2,616)	17,954,722

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**1,131,486**	1,576,787
Net cash flows (used in)/generated from investing activities	**(3,385,038)**	528,102
Net cash flows used in financing activities	**(510,819)**	(1,145,364)
Net (decrease)/increase in cash and cash equivalents	**(2,764,371)**	959,525
Cash and cash equivalents at the beginning of the year	**5,545,766**	4,528,412
Exchange gains on cash and cash equivalents	**20,401**	57,829
Cash and cash equivalents at the end of the year	**2,801,796**	5,545,766

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Compliance with IFRS Accounting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

Except for the amendments to IAS 12, the adoption of the new amendments to standards does not have significant impact on the consolidated financial statements of the Group. The Group had to change its accounting policies following the adoption of IAS 12, details of which are disclosed in Note 2.1.5.

2.1.4 New standards and interpretations not yet adopted

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2023 and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to IAS 21	Lack of Exchangeability	January 1, 2025
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2.1.5 Changes in accounting policies

The Group has adopted the Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" on January 1, 2023, which resulted in the recognition of separate deferred income tax assets and separate deferred income tax liabilities for temporary differences arising on leases, both at initial recognition and subsequently. In accordance with the transitional provisions, the Group applied the above mentioned amendments for the first time by recognising deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. As a result, with the beginning of the earliest period presented being January 1, 2022, an adjustment of RMB40,869,000 was recognised to the gross amounts of deferred income tax assets and deferred income tax liabilities simultaneously, and the resultant deferred income tax assets and deferred income tax liabilities met the set-off provisions and would be presented on a net basis on the statement of financial position. Since the Group had considered the lease as a single transaction in which the assets and liabilities were integrally linked and recognised deferred tax on a net basis previously, there were nil impact on opening retained earnings upon the adoption of the above mentioned amendments.

In addition, Amendments to IAS 12 "International Tax Reform – Pillar Two Model Rules" were issued on 23 May 2023 which are effective upon issuance and require retrospective application. The Group applied the relief from deferred tax accounting for Pillar Two top-up taxes immediately upon the release of the amendments in May 2023. It is reasonably estimated that, if Pillar Two legislation had been in effect, the Group's income tax would not have been materially changed for the year ended 31 December 2023.

3 SEGMENT INFORMATION

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

The Group had the following reportable segments for the year ended December 31, 2023 and 2022:

- 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, distributions of online audio books and online comic content provided via Tencent and third-party platforms, etc.).

As of December 31, 2023 and 2022, 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, other gains/(losses), net, finance costs, net, net reversal of/(provision for) impairment losses on financial assets, share of net profit of associates and joint ventures and income tax expense were also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended December 31, 2023 and 2022. 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 these consolidated financial statements. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

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

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended December 31, 2023 and 2022 is as follows:

	Year ended December 31, 2023		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenues	**3,948,139**	**3,063,646**	**7,011,785**
Cost of revenues	**1,983,546**	**1,656,776**	**3,640,322**
Gross profit	**1,964,593**	**1,406,870**	**3,371,463**

	Year ended December 31, 2022		
	Online business	Intellectual Property operations and others	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenues	4,363,997	3,261,625	7,625,622
Cost of revenues	2,217,233	1,378,286	3,595,519
Gross profit	2,146,764	1,883,339	4,030,103

The reconciliation of gross profit to profit before income tax of individual period during the year ended December 31, 2023 and 2022 is shown in the consolidated statement of comprehensive income.

For the year ended December 31, 2023, the Group's customer base was diversified and included only Tencent with whom transactions exceeded 10% of the Group's revenues (2022: only Tencent).

As of December 31, 2023 and 2022, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

4 REVENUES

4.1 Disaggregation of revenue from contracts with customers

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

	Online business			Intellectual property operations and others		
Year ended December 31, 2023	**On self-owned platform products** *RMB'000*	**On the channels on Tencent products** *RMB'000*	**On third-party platforms** *RMB'000*	**Intellectual property operations** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Timing of revenue recognition:						
– At a point in time	**3,107,089**	**338,249**	**192,591**	**2,439,712**	**85,611**	**6,163,252**
– Over time	**306,807**	**3,403**	**–**	**534,107**	**4,216**	**848,533**
	3,413,896	**341,652**	**192,591**	**2,973,819**	**89,827**	**7,011,785**

	Online business			Intellectual property operations and others		
Year ended December 31, 2022	On self-owned platform products *RMB'000*	On the channels on Tencent products *RMB'000*	On third-party platforms *RMB'000*	Intellectual property operations *RMB'000*	Others *RMB'000*	Total *RMB'000*
Timing of revenue recognition:						
– At a point in time	3,202,998	482,783	290,153	2,465,538	98,339	6,539,811
– Over time	279,875	108,188	–	694,699	3,049	1,085,811
	3,482,873	590,971	290,153	3,160,237	101,388	7,625,622

4.2 Liabilities related to contracts with customers

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

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Deferred revenue		
Online business	**625,375**	440,053
Intellectual property operations and others	**278,106**	205,610
	903,481	645,663

Deferred revenue mainly comprises contract liabilities in relation to 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2023 and 2022; 2) the balance of deferred copyrights licensing income to be amortised over remaining sub-licensing period, and the portion to be recognised over one year after the end of each reporting period was classified as non-current liabilities in the consolidated statement of financial position as of December 31, 2023 and 2022 and; 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes had not been delivered as broadcasting license had not been obtained for these television series or films, or advertising services had not been provided, or animations had not been delivered to the online platforms as of December 31, 2023 and 2022.

(a) Revenue recognised in relation to deferred revenue

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

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	**440,053**	422,174
Intellectual property operations and others	**181,379**	249,898
	621,432	672,072

5 EXPENSES BY NATURE

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Content costs	**1,646,031**	1,512,746
Promotion and advertising expenses	**1,185,454**	1,472,813
Employee benefits expenses	**1,076,230**	1,212,564
Platform distribution costs	**808,135**	850,211
Production costs of television, web and animated series and films	**545,051**	644,981
Payment handling costs	**264,770**	253,883
Amortisation of intangible assets *(Note 12)*	**182,689**	261,206
Bandwidth and server custody fees	**105,151**	78,719
Game development outsourcing costs	**96,500**	82,599
Impairment loss on television series and film rights	**86,367**	15,171
Depreciation of right-of-use assets	**81,956**	95,124
Cost of physical inventories sold	**58,959**	43,420
Travelling, entertainment and general office expenses	**48,591**	42,587
Professional service fees	**46,779**	48,371
Impairment loss on prepayments for production of television series and films	**41,075**	–
Depreciation of property, plant and equipment	**33,378**	21,414
Provision for physical inventory obsolescence	**19,684**	13,733
Tax surcharge expenses	**16,629**	20,570
Auditors' remuneration		
– Audit services	**10,946**	10,669
– Non-audit services	**870**	1,412
Impairment loss on prepayments to directors and writers	**9,522**	23,556
Logistic expenses	**5,983**	5,779
Expense relating to short-term leases and low value leases	**4,976**	4,261
Others	**145,150**	120,521
	6,520,876	6,836,310

6 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Fair value loss of investments in redeemable shares	**(67,178)**	(494,389)
Fair value gain/(loss) of investments in other financial assets at fair value through profit or loss	**61,330**	(35,599)
Government subsidies	**113,781**	201,090
Fair value (loss)/gain on contingent consideration payable	**(15,410)**	96,730
Gain on disposals of investments in associates	**40,416**	53,767
Impairment provision for investments in associates *(Note 13)*	**(107,155)**	(37,389)
Impairment provision for intangible assets *(Note 12)*	**(44,255)**	–
Loss on disposal of a subsidiary	**–**	(16,934)
Compensation received for copyright infringements	**6,763**	14,419
Dilution gains on a deemed disposal *(Note 13)*	**12,413**	–
Others, net	**10,788**	11,228
	11,493	(207,077)

7 FINANCE COSTS, NET

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Interest expenses on borrowings	**9,990**	37,351
Interest expenses on lease liabilities	**9,668**	10,712
Foreign exchange (gain)/loss, net	**(6,767)**	5,922
	12,891	53,985

8 INTEREST INCOME

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Interest income on bank deposits	**166,124**	160,893
Others	**192**	–
	166,316	160,893

9 INCOME TAX EXPENSE

(i) Cayman Islands corporate income tax

The Company was not subject to any taxation in the Cayman Islands for the years ended December 31, 2023 and 2022.

(ii) Hong Kong profits tax

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

(iii) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the year ended December 31, 2023 (2022: 25%).

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2023 and 2022 according to the applicable CIT Law.

Certain subsidiaries of the Group are entitled to other tax concessions, mainly include the preferential tax rate of 15% applicable to some subsidiaries located in certain area of the Mainland of China upon fulfillment of certain requirements of the respective local government.

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

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Current income tax	**184,731**	216,383
Deferred income tax	**(86,881)**	(50,191)
Income tax expense	**97,850**	166,192

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2023 (2022: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analysed as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Profit before income tax	**901,397**	773,820
Share of net profit of associates and joint ventures	**(204,979)**	(198,971)
Tax calculated at PRC statutory tax rate of 25%	**174,105**	143,712
Effects of respective tax rates applicable to different subsidiaries of the Group	**(84,305)**	(17,690)
Unrecognised deferred income tax assets	**76,047**	3,666
Non-deductible expenses less non-taxable income	**1,930**	113,392
Research and development tax credit	**(43,338)**	(64,439)
Utilisation of previously unrecognised temporary differences	**(26,589)**	(12,449)
Income tax expense	**97,850**	166,192

10 EARNINGS PER SHARE

(a) Basic earnings per share for the years ended December 31, 2023 and 2022 are 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.

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Net profit attributable to the equity holders of the Company *(RMB'000)*	**804,879**	608,186
Weighted average number of ordinary shares in issue *(thousand)*	**1,009,266**	1,010,774
Basic earnings per share *(expressed in RMB per share)*	**0.80**	0.60

(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 year ended December 31, 2023, the Company had dilutive potential ordinary shares of restricted share units ("RSUs") and share options granted to employees and directors (Note 20). 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. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that would have been issued at fair value (determined as the average market share price of the Company's shares) were incremental shares issued for no consideration which causes dilution to earnings per share.

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 year ended December 31, 2022 as the impact would be dilutive.

	Year ended December 31,	
	2023	2022
Net profit attributable to the equity holders of the Company *(RMB'000)*	**804,879**	608,186
Impact of an associate's potential ordinary shares *(RMB'000)*	**–**	(4,926)
Net profit used to determine diluted earnings per share *(RMB'000)*	**804,879**	603,260
Weighted average number of ordinary shares in issue *(thousand)*	**1,009,266**	1,010,774
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media *(thousand)*	**2,720**	4,031
Adjustments for share-based compensation – RSUs *(thousand)*	**5,887**	4,817
Adjustments for share-based compensation – share options *(thousand)*	**335**	27
Weighted average number of ordinary shares for diluted earnings per share *(thousand)*	**1,018,208**	1,019,649
Diluted earnings per share *(expressed in RMB per share)*	**0.79**	0.59

11 DIVIDENDS

No dividend was paid or declared by the Company during the year ended December 31, 2023 (2022: nil).

12 INTANGIBLE ASSETS

	Goodwill	Non-compete agreements	Trademarks	Copyrights of contents	Software	Domain names	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2023							
Opening net book amount as of January 1, 2023	**6,632,807**	**14,841**	**557,242**	**208,622**	**6,038**	**2,089**	**7,421,639**
Additions	**–**	**–**	**1**	**121,968**	**13,460**	**–**	**135,429**
Amortisation	**–**	**(6,596)**	**(20,803)**	**(147,843)**	**(7,408)**	**(39)**	**(182,689)**
Impairment	**–**	**–**	**–**	**(44,255)**	**–**	**–**	**(44,255)**
Closing net book amount as of December 31, 2023	**6,632,807**	**8,245**	**536,440**	**138,492**	**12,090**	**2,050**	**7,330,124**

	Goodwill	Non-compete agreements	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 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	217,925	–	3,860	–	221,787
Amortisation	–	(12,749)	(20,802)	(214,177)	(7,332)	(6,107)	(39)	(261,206)
Currency translation differences	–	–	–	5,556	–	3	–	5,559
Closing net book amount as of December 31, 2022	6,632,807	14,841	557,242	208,622	–	6,038	2,089	7,421,639

During the year ended December 31, 2023, amortisation expense of approximately RMB147,642,000 (2022: RMB221,125,000), RMB184,000 (2022: RMB417,000) and RMB34,863,000 (2022: RMB39,664,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

As of December 31, 2023, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation ("Cloudary") in 2014, the acquisition of the entities operating online literature business through the brand of "Chuangshi" ("Chuangshi") in 2014 and the acquisition of 100% equity interests in New Classics Media in 2018 (or referred to as "acquired TV and film business" hereafter).

(a) Impairment tests for goodwill

As of December 31, 2023 and 2022, goodwill is allocated to the Group's CGUs identified as follows:

	As of December 31, 2023	As of December 31, 2022
	RMB'000	*RMB'000*
Online business	**3,715,659**	3,715,659
Acquired TV and film business	**2,917,148**	2,917,148
	6,632,807	6,632,807

Impairment review on goodwill arising from online business and acquired TV and film business had been conducted by the management according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of a CGU (or groups of CGUs) is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

The respective recoverable amount of the CGU relating to online business and acquired TV and film business had been determined based on its respective value-in-use calculations. The value-in-use calculations adopted cash flow projections derived from expected business operating covering a five-year period. The accuracy and reliability of the information was 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 plans and market developments.

The Group had engaged independent external valuers to assist the management in performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on goodwill arising from online business and acquired TV and film business was recognised during the years ended December 31, 2023 and 2022.

Impact of possible changes in key assumptions

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

2023	**Online business**	**Acquired TV and film business**
Gross margin *(%)*	From 51.2% to 52.1%	From 51.6% to 59.3%
Annual growth rate *(%)*	From 3.3% to 11.1%	From 4.8% to 18.5%
Pre-tax discount rate *(%)*	17.9%	16.9%

2022	Online business	Acquired TV and film business
Gross margin *(%)*	From 54.0% to 55.9%	From 44.0% to 50.4%
Annual growth rate *(%)*	From 7.4% to 19.3%	From 8.3% to 17.3%
Pre-tax discount rate *(%)*	19.5%	17.1%

The budgeted gross margins used in the goodwill impairment testing were determined by the management based on past performance and its expectation for future market development. The expected revenue growth rates and gross profit rates were arrived at based on the business projection approved by the Group. Discount rates reflect market assessments of the time value and the specific risks relating to the industry. The variation in assumptions is attributable to the management's evaluation of economic conditions, market situations and the internal development strategies.

(b) Impairment tests for trademarks

Impairment review on the trademarks with indefinite useful life arose from the acquisition of New Classics Media in 2018 had been conducted by the management as of December 31, 2023 and 2022 according to IAS 36 "Impairment of assets". For the purposes of impairment assessment, the recoverable amount of the trademarks with indefinite life is determined based on the higher amount of the FVLCD and value-in-use calculations. As of December 31, 2023 and 2022, the recoverable amount of trademarks had been determined based on the value-in-use calculations. The value-in-use calculations adopted cash flow derived from expected business operating, which were the same as that for the goodwill impairment tests. The discount rate adopted by the Group when calculating discounted cash flows was also the same as that for the goodwill impairment assessments. No impairment provision was recognised by the Group against the carrying amount of the trademark as of December 31, 2023 (2022: nil).

(c) Impairment tests for copyrights

Impairment review on the copyrights of certain contents had been conducted by the management as of December 31, 2023 according to IAS 36 "Impairment of assets". As of December 31, 2023, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2023, the Group made an impairment provision of approximately RMB44,255,000 against the carrying amount of such copyrights.

13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Investments in associates *(a)*	**409,405**	476,225
Investments in joint ventures *(b)*	**515,278**	532,529
	924,683	1,008,754

(a) Investments in associates

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
At the beginning of the year	**476,225**	490,500
Additions	**23,027**	74,403
Share of net loss of associates	**(1,976)**	(29,752)
Share of other comprehensive loss of associates	**(647)**	(393)
Impairment provision	**(72,502)**	(37,389)
Disposals of associates	**(28,514)**	(20,550)
Dilution gains on a deemed disposal	**12,413**	–
Transfer	**–**	(1,451)
Currency translation differences	**1,379**	857
At the end of the year	**409,405**	476,225

(b) Investments in joint ventures

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
At the beginning of the year	**532,529**	441,778
Additions	**39,080**	19,920
Share of net profit of joint ventures	**206,955**	228,723
Disposal of a joint venture	**(23,800)**	–
Impairment provision	**(34,653)**	–
Dividend from a joint venture	**(204,833)**	(157,892)
At the end of the year	**515,278**	532,529

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Classification of financial assets at fair value through profit or loss

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

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

FVPL include the following:

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Included in non-current assets:		
Investments in unlisted entities	**849,468**	853,330
Investments in a listed entity	**6,579**	8,911
	856,047	862,241
Included in current assets:		
Investments in television series and films	**822**	4,500
Investments in structured deposits	**2,441,897**	114,829
	2,442,719	119,329
	3,298,766	981,570

15 INVENTORIES

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Adaptation rights and scripts	**701,930**	715,934
Raw materials	**1,708**	3,534
Work in progress	**1,974**	1,284
Inventories in warehouse	**32,340**	34,754
Inventories held with distributors on consignment	**31,168**	31,472
Others	**20,248**	10,769
	789,368	797,747
Less: provision for inventory obsolescence	**(45,708)**	(37,476)
	743,660	760,271

16 TELEVISION SERIES AND FILM RIGHTS

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Television series and film rights		
– production in progress	**951,533**	748,969
– completed	**43,545**	191,443
	995,078	940,412

	Production in progress *RMB'000*	Completed *RMB'000*	Total *RMB'000*
As of January 1, 2023	**748,969**	**191,443**	**940,412**
Additions	**669,132**	**–**	**669,132**
Transfer from production in progress to completed	**(433,664)**	**433,664**	**–**
Transfer from adaptation rights and scripts to production in progress	**16,952**	**–**	**16,952**
Recognised in cost of revenue	**(49,856)**	**(581,562)**	**(631,418)**
As of December 31, 2023	**951,533**	**43,545**	**995,078**
As of January 1, 2022	813,633	277,259	1,090,892
Additions	507,938	–	507,938
Transfer from production in progress to completed	(572,883)	572,883	–
Transfer from adaptation rights and scripts to production in progress	1,734	–	1,734
Recognised in cost of revenue	(1,453)	(658,699)	(660,152)
As of December 31, 2022	748,969	191,443	940,412

17 TRADE AND NOTES RECEIVABLES

	As of December 31,	
	2023 *RMB'000*	2022 *RMB'000*
Trade receivables	**2,179,210**	2,245,859
Notes receivable	**200**	1,340
	2,179,410	2,247,199
Less: allowance for impairment of trade receivables	**(191,210)**	(198,269)
	1,988,200	2,048,930

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 performs 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 to their fair value as of December 31, 2023 and 2022.

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

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Trade and notes receivables		
– Up to 3 months	**1,348,862**	1,513,045
– 3 to 6 months	**163,772**	122,045
– 6 months to 1 year	**292,035**	190,646
– 1 to 2 years	**135,560**	162,705
– Over 2 years	**47,971**	60,489
	1,988,200	2,048,930

18 BORROWINGS

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Unsecured		
USD bank borrowings *(Note)*	–	417,876
Secured		
RMB bank borrowings	**10,000**	–
Total borrowings	**10,000**	417,876

Note:

As of December 31, 2022, the Group's unsecured long-term bank borrowings consisted of USD60,000,000 fixed rate borrowings bearing interest rate at 1.41% per annum. These borrowings were repaid in February 2023.

As of December 31, 2023 and 2022, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**10,000**	417,876

19 TRADE PAYABLES

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

	As of December 31,	
	2023	2022
	RMB'000	*RMB'000*
– Up to 3 months	**541,461**	472,982
– 3 to 6 months	**63,593**	101,266
– 6 months to 1 year	**126,496**	230,619
– Over 1 year	**388,164**	399,006
	1,119,714	1,203,873

20 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 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 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 15,409,091 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 was 40,409,091 shares.

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

	Number of RSUs
As of January 1, 2023	**5,322,457**
Granted	**940,097**
Forfeited	**(1,057,067)**
Vested	**(1,643,782)**
Outstanding balance as of December 31, 2023	**3,561,705**
As of January 1, 2022	7,304,840
Granted	2,035,302
Forfeited	(842,617)
Vested	(3,175,068)
Outstanding balance as of December 31, 2022	5,322,457

(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 were divided into two to four tranches on an equal basis at their grant dates, and shall become vested on each of the first two to four anniversaries of the grant date.

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

	Number of RSUs
As of January 1, 2023	**6,690,316**
Granted	**3,059,259**
Forfeited	**(966,351)**
Vested	**(1,957,050)**
Outstanding balance as of December 31, 2023	**6,826,174**
As of January 1, 2022	4,351,636
Granted	4,205,077
Forfeited	(709,754)
Vested	(1,156,643)
Outstanding balance as of December 31, 2022	6,690,316

During the year ended December 31, 2023, there was no RSU granted to executive directors of the Company. (2022: 80,700 RSUs were granted to an executive 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. The expected dividends during the vesting period had been taken into account when assessing the fair value of these RSUs.

(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:

	2023		2022	
	Average exercise price	Number of options	Average exercise price	Number of options
As of January 1	HKD47.15	9,243,013	HKD76.06	7,811,453
Granted	HKD32.06	1,609,549	HKD30.69	5,309,205
Forfeited	HKD34.37	(789,039)	HKD82.85	(71,395)
Cancelled	–	–	HKD82.85	(3,806,250)
As of December 31	HKD45.74	10,063,523	HKD47.15	9,243,013
Exercisable as of December 31	HKD50.11	5,504,884	HKD57.95	3,221,431

During the year ended December 31, 2023, 504,090 share options were granted to an executive director of the Company (2022: 2,200,000 share options and 1,650,000 share options were granted to two executive directors of the Company, respectively).

During the year ended December 31, 2023 and 2022, no option was exercised.

(ii) Outstanding share options

Details of the expiry dates, exercise prices and respective numbers of share options which remained outstanding as of December 31, 2023 and December 31, 2022 are as follows:

			Number of share option	
Grant Date	**Expiry Date**	**Exercise price**	**December 31, 2023**	December 31, 2022
July 12, 2021	July 11, 2031	HKD 82.85	2,091,564	2,147,269
November 5, 2021	November 4, 2031	HKD 53.14	1,786,539	1,786,539
August 18, 2022	August 17, 2032	HKD 30.69	4,575,871	5,309,205
August 21, 2023	August 20, 2033	HKD 32.06	1,609,549	–
			10,063,523	9,243,013
Total				
Weighted average remaining contractual life of options outstanding at end of year			8.25 years	9.21years

The outstanding share options as of December 31, 2023 were divided into four or three 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 December 31, 2023, the Expected Retention Rate of the Group had been assessed to be no lower than 92% (December 31, 2022: 92%).

MATERIAL INVESTMENT, ACQUISITION AND DISPOSAL OF ASSETS

The Company did not have any material investment, acquisitions and disposals of assets during the year ended December 31, 2023.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2023 (2022: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Corporate Governance Code

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

For the year ended December 31, 2023, 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 C3 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries by the Company, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended December 31, 2023.

Events after the Reporting Period

There are no material subsequent events undertaken by the Group after December 31, 2023 and up to the date of this announcement.

Annual General Meeting

The annual general meeting (the "AGM") will be held on Monday, June 3, 2024. The notice of the AGM will be published and despatched to the Shareholders in due course.

Closure of the Register of Members

For determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, May 29, 2024 to Monday, June 3, 2024, both days inclusive, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, May 28, 2024.

Audit Committee

The Audit Committee, together with the Board and the Auditor has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2023. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and internal control systems of the Company, and considered the risk management and internal control systems to be effective and adequate.

Auditor's Procedures Performed on this Announcement

The figures in respect of the announcement of the Group's results for the year ended December 31, 2023 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Publication of the Annual Results Announcement and Annual Report

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

APPRECIATION

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

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

Hong Kong, March 18, 2024

As of the date of this announcement, the Board comprises Mr. Hou Xiaonan and Mr. Huang Yan as Executive Directors; Mr. James Gordon Mitchell, Mr. Cao Huayi, and Mr. Xie Qinghua as Non-Executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent Non-Executive Directors.

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

DEFINITION

"2014 RSU Scheme":	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014;
"2020 RSU Scheme":	a restricted share unit scheme of the Company adopted on May 15, 2020, as amended from time to time;
"2021 Share Option Scheme":	a share option scheme of the Company adopted on May 24, 2021, as amended from time to time;
"AGM":	the forthcoming annual general meeting of the Company to be held on June 3, 2024;
"AI"	artificial intelligence;
"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 as set out in Appendix C1 of the Listing Rules;
"China" or the "PRC":	the People's Republic of China;
"Cloudary":	Cloudary Corporation (formerly known as Shanda Literature Corporation), an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 25, 2011, and our directly wholly-owned subsidiary;
"Company", "our Company", "the Company" or "China Literature":	China Literature Limited (阅文集团) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"controlling shareholder":	has the meaning ascribed to it under the Listing Rules;
"Director(s)":	the director(s) of our Company;

"Group", "our Group", "the Group", "we", "us", or "our":	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"HKD":	the lawful currency of Hong Kong;
"Hong Kong":	the Hong Kong Special Administrative Region of the People's Republic of China;
"IP":	intellectual property;
"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 GEM of the Stock Exchange;
"MAUs":	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code":	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs":	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;

"New Classics Media Holdings Limited", "NCM" or "New Classics Media":	previously known as "Qiandao Lake Holdings Limited", a company established in Cayman Islands on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
"our platform":	refers to all of online products, channels and content operated by China Literature, including but not limited to mobile apps, WAPs, websites and various channels;
"Reporting Period":	the year ended December 31, 2023;
"RMB":	the lawful currency of the PRC;
"RSU(s)":	restricted stock unit(s);
"Share(s)":	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Shareholder(s)":	holder(s) of the Share(s);
"Stock Exchange":	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)":	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Tencent":	Tencent Holdings Limited, our controlling shareholder, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700);
"Tencent Animation and Comics":	Shenzhen Tencent Animation and Comics Company limited (深圳市騰訊動漫有限公司) and its relevant associates;
"USD":	the lawful currency of the United States.