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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board of directors of China Literature Limited hereby announces the unaudited consolidated results of the Group for the six months ended June 30, 2021. The Audit Committee, together with management and the Auditor, has reviewed the unaudited interim results of the Group for the six months ended June 30, 2021.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		Year- over-year (%)
	2021	2020	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Revenues	4,342,146	3,260,206	33.2
Gross profit	2,288,065	1,731,312	32.2
Operating profit/(loss)	1,284,000	(3,555,563)	N/A
Profit/(loss) before income tax	1,365,378	(3,511,816)	N/A
Profit/(loss) for the period	1,080,950	(3,310,525)	N/A
Profit/(loss) attributable to equity holders of the Company	1,082,742	(3,295,874)	N/A
Non-IFRS profit attributable to equity holders of the Company	664,989	21,679	2,967.4

BUSINESS REVIEW AND OUTLOOK

Overview

During the first half of 2021, our total revenues increased by 33.2% to RMB4.3 billion year-on-year. Revenues from IP operations and others segment increased by 124.5% to RMB1.8 billion, accounting for 41.5% of total revenues. Our non-IFRS net profit attributable to equity holders of the Company was RMB665.0 million, an increase of nearly 30 times over RMB21.7 million from the corresponding period of last year.

Business highlights

During the first half of 2021, we continued to make upgrades in content, platform and ecosystem to serve the goal of delivering long-lasting IP. We believe that literary content and platforms are equally important and that both are critical to our success. Metrics in these two areas gauge our ability to produce high-quality reading content and generate user reach and engagement. During the six months, we reinforced our leading positions in content as well as platform. Both the number and quality of our writers and literary works increased. As of June 30, 2021, China Literature had 9.4 million writers on the platform, with a total of 14.5 million literary works. Over 18 billion Chinese characters were added to our platform during the first half of the year. According to Baidu's search rankings in June 2021, 17 of the top 20 online literary works originated on our platform.

In the first half of 2021, the number of MAUs for our online business was 232.7 million, an increase of 3.7% from the previous six months and approximately the same year-on-year. A surge in online activity during the COVID-19 pandemic in the first six months of 2020 represents the baseline for the first half of 2020. Online user traffic dropped in the second half of the year once the pandemic was brought largely under control, while our MAUs in the first half of this year regained momentum and approached the peak level of 2020. It has benefited from emerging top-notch content, enhanced community operations, increased efficiency of our recommendation system, and the growing popularity of our free-to-read business.

In addition to our successful pay-to-read business, we made substantial progress in the free-to-read business. In June 2021, average DAUs for our free-to-read business was 13 million, an increase of 30% compared to December 2020. During the first half of this year, China Literature and Tencent set up a joint project team to promote the free-to-read business and to facilitate channel cooperation within the Tencent ecosystem in a more efficient manner. Our free content creation platform also continued to produce high-quality free novels and attract more and more writers.

Leadership in both content and users ensures that we can generate quality literary IP continuously under our mechanism. The essence of our IP ecosystem is to redefine, reshape and disseminate IP to maximize its value from brand new perspectives. Using an analogy, we are using the concept of metamorphosis to describe the extension and reshaping of original literary IP through the entire content value chain.

- Stage one of the metamorphosis comes through the conversion of literary IP into media-rich products utilizing sound and visual effects, and potentially digital interactions. Based on a common story line, each media segment can add its own touch to create unique audience connections and increase the impact of the original IP. From 2020 onwards, China Literature has been actively working with external teams, while building its own capability in content conversion, and has made significant progress in comics, animation, film, TV drama and game segments. Just to give some examples:
 - In the comics segment, in 2020 China Literature’s Comics & Animation Department and Tencent Comics jointly announced a three-year project to adapt 300 works of online fiction into comics. Currently, more than 70 of our literary works have been adapted into comics and released on the Tencent Comics platform. In addition, we will collaborate with Kuaikan Comics, another leading online comics platform, to adapt 30 online literary works into comics.
 - In the animation segment, we produced and launched a number of animated series adapted from our IP in the first half of this year. Among them, a semi-annual animation work adapted from the popular title, Battle Through the Heavens (斗破蒼穹), generated over 1.9 billion video views and gained 7.8 points on Douban. We currently have more than 50 animation projects in the pipeline, including animated series adapted from popular IPs, such as Dafeng Guardian (大奉打更人), Forty Millenniums of Cultivation (星域四萬年), The First Order (第一序列), and World’s Best Martial Artist (全球高武).
 - In the film and TV drama segment, the drama series My Heroic Husband (贅婿), jointly produced by Tencent Pictures, New Classics Media, and China Literature Pictures, was one of the year’s blockbusters. It ranked No. 1 on a number of TV series ranking charts and won praise from respected critics. Another drama series, Soul Land (斗羅大陸), topped Tencent Video’s hot search list and TV series list during its broadcast period, enjoying wide market popularity. The Rebel (叛逆者) ranked No. 1 on the playlist of Enlightent’s TV series, No.1 on Guduo’s hot list for TV series, and was the most-watched program during its specific broadcast time slots on TV stations nationwide for 20 consecutive days. The drama series was also widely acclaimed by viewers and gained 8.3 points on Douban. As for films, New Classics Media participated in the production of the hit film Hi, Mom (你好，李煥英) released during 2021 Chinese New Year Holiday, with box office sales of RMB5.4 billion, the second-highest ranking box office sales in the history of China’s film industry. Tencent Pictures, New Classics Media, and China Literature Pictures also participated in the production of 1921 (1921), a film to celebrate the 100th anniversary of the founding of the Communist Party of China. The film recreated the beginnings of the great and glorious journey of the Communist Party of China and was released in theaters on the date of the actual anniversary on July 1, 2021. Looking ahead, China Literature Pictures, New Classics Media and Tencent Pictures will be working closely together. The partnership will focus on serial development of premium IP franchises, including Joy of Life (慶餘年), My Heroic Husband (贅婿), and Dafeng Guardian (大奉打更人) as well as the launch of high-quality TV series with contemporary themes like A Lifelong Journey (人世間). We will also explore opportunities in new areas such as web films and short dramas.

- In the games segment, Lord of the Mysteries (詭秘之主), A Record of a Mortal's Journey to Immortality (凡人修仙傳), My Heroic Husband (贅婿) and other high-quality IPs have been licensed to the industry's leading game developers, and the games adapted from these IPs will be launched sequentially sometime in the future.
- The second stage of IP metamorphosis is to enable our premium IPs to walk out of connected screens and digital devices into every consumer's everyday life in the form of various types of products and services. In this stage, monetization is enhanced after the IP has broad influence. Currently, the influence of Chinese IP is still at an early stage. The top ranking Chinese IP licensor in the global market is number 39. The global IP licensing and merchandizing industry is dominated by entertainment giants from the US and Japan, which occupy the top 20 positions. We believe in the long-term vitality and great commercial prospects of Chinese IP. At the beginning of the year, China Literature established an IP Power Center to promote the visual characters created based on our premium IP content, starting with those that have already established a wide user base. We will build a symbiotic relationship with our upstream and downstream partners to explore new opportunities such as IP licensing in consumer products, fashion toys, and offline businesses. We hope China Literature will become one of the top IP licensors globally in the future.
- The third stage of IP metamorphosis is where an IP and the characters from the IP not only connect to, but become an integral part of the life experience of consumers. At this stage, an IP is immortal and can be passed down from one generation to the next. This is our target. We hope to create an IP that can grow together with audience, bearing a unique timestamp from its date of creation but evolving over time. We hope that the relationship between China Literature's IPs and consumers is interactive, intimate, enduring, and eventually inseparable hence invaluable. The two stages of metamorphosis, the conversion of IP into media-rich formats, and the increase in monetization value of the IP, support stage three metamorphosis, that is, IP immortality.

Based on our understanding of content, users and the transformative potential of our IP, in the first half of the year we proposed as our mission creating good stories that will live forever. The ultimate goal of the China Literature IP ecosystem is to create compelling and inspirational stories. Our success relies on China Literature's online platform to discover and distribute premium literary IP. It also relies on our open and inclusive ecosystem within which creative talent and business partners collaborate seamlessly to promote IP metamorphosis and unleash the full power and commercial value of the best IP.

Other significant business developments

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

- Greater numbers of young writers joined our platform with excellent results. For example, during the first half of 2021, writers born after 1995 accounted for 80% of our new writers; post-90s writers created 57% of our Top 100 bestselling new titles and they accounted for 54% of our newly added Platinum and Phenomenal Writers. These young writers revitalized the platform with their avant-garde and innovative genres.
- We continued to improve our reading community and enhance user engagement. As of June 30, 2021, there were 220 million paragraph comments, 1.1 million user-generated audio recordings for texts, 43 thousand extra chapters in audio and video formats published by writers, and more than 120 works each with over 1 million comments across the platform on a cumulative basis.
- We continued to encourage the creation of literary works with contemporary themes. During the first half of this year, we hosted a writing contest aiming at publishing high quality stories with contemporary themes that convey positive social values and will drive healthy development of the online literature industry. We will adapt contemporary-themed literary works into various media formats including comics, animation, film and drama series to reach a wider audience. In addition, we will translate and publish high-quality contemporary-themed works on our foreign language platform WebNovel to promote stories set in contemporary China to global audiences.
- China Literature was awarded Outstanding Publisher and the work Great Power Heavy Industry (大國重工) incubated on our platform was awarded Outstanding Online Publication by the 5th China Publication Government Awards. The China Publication Government Awards acknowledge and reward outstanding publications, publishers and individuals in the press and publication industry of China.
- We continued to expand our international presence. As of June 30, 2021, WebNovel, our foreign language website and mobile platform, offered approximately 1,700 works translated from Chinese and approximately 280,000 original content works created locally.

Outlook

China Literature's vision is to become a world-leading platform for cultural creativity. Down the road, we will build an unparalleled collection of IP franchises and characters that will unite with users across their daily lives. We will assemble a strong army of creative talent that delivers not only various formats of entertainment products and services, but also brings the IP and its characters to life. We will continue to maintain our support for creative talent to help realize their maximum potential. Their ideas combined with our business network will be delivered to consumers in the form of creative products hitherto unseen.

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenues	4,342,146	3,260,206
Cost of revenues	<u>(2,054,081)</u>	<u>(1,528,894)</u>
Gross profit	2,288,065	1,731,312
Interest income	60,617	62,048
Other gains/(losses), net	901,146	(3,529,736)
Selling and marketing expenses	(1,348,209)	(1,270,264)
General and administrative expenses	(635,087)	(350,665)
Net reversal of/(provision for) impairment losses on financial assets	<u>17,468</u>	<u>(198,258)</u>
Operating profit/(loss)	1,284,000	(3,555,563)
Finance costs	(34,561)	(38,080)
Share of net profit of associates and joint ventures	<u>115,939</u>	<u>81,827</u>
Profit/(loss) before income tax	1,365,378	(3,511,816)
Income tax (expense)/benefit	<u>(284,428)</u>	<u>201,291</u>
Profit/(loss) for the period	<u>1,080,950</u>	<u>(3,310,525)</u>
Attributable to:		
Equity holders of the Company	1,082,742	(3,295,874)
Non-controlling interests	<u>(1,792)</u>	<u>(14,651)</u>
	<u>1,080,950</u>	<u>(3,310,525)</u>
Non-IFRS profit for the period	<u>663,197</u>	<u>7,028</u>
Attributable to:		
Equity holders of the Company	664,989	21,679
Non-controlling interests	<u>(1,792)</u>	<u>(14,651)</u>
	<u>663,197</u>	<u>7,028</u>

Revenues. Revenues increased by 33.2% to RMB4,342.1 million for the six months ended June 30, 2021 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2021 and 2020:

	Six months ended June 30,			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	<i>(Unaudited)</i>		<i>(Restated)</i>	
Online business^{(1) (3)}				
On our self-owned platform products	1,880,654	43.3	1,989,748	61.0
On our self-operated channels on Tencent products	353,456	8.1	308,185	9.5
On third-party platforms	305,846	7.1	159,343	4.9
Subtotal	2,539,956	58.5	2,457,276	75.4
Intellectual property operations and others^{(2) (3)}				
Intellectual property operations	1,740,086	40.1	757,280	23.2
Others	62,104	1.4	45,650	1.4
Subtotal	1,802,190	41.5	802,930	24.6
Total revenues	4,342,146	100.0	3,260,206	100.0

Notes:

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

- Revenues from online business increased by 3.4% to RMB2,540.0 million for the six months ended June 30, 2021 on a year-over-year basis, accounting for 58.5% of total revenues.

Revenues from online business on our self-owned platform products decreased by 5.5% to RMB1,880.7 million for the six months ended June 30, 2021. The year-over-year decrease was primarily due to a higher revenue base driven by a rise in online traffic during the COVID-19 pandemic period in the first half of 2020.

Revenues from online business on our self-operated channels on Tencent products increased by 14.7% to RMB353.5 million for the six months ended June 30, 2021, primarily due to an increase in advertising revenues as we continued to expand free-to-read business.

Revenues from online business on third-party platforms increased by 91.9% to RMB305.8 million for the six months ended June 30, 2021, primarily due to an increase in revenues from certain existing third-party platform partners and the expansion of distribution channels during the first half of 2021.

The following table summarizes our key operating data for the six months ended June 30, 2021 and 2020:

	Six months ended June 30,	
	2021	2020
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	232.7 million	233.4 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	9.3 million	10.6 million
Monthly average revenue per paying user (“ARPU”) ⁽¹⁾	RMB36.4	RMB34.1

Note:

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

- Average MAUs on our self-owned platform products and self-operated channels slightly decreased by 0.3% year-over-year from 233.4 million to 232.7 million for the six months ended June 30, 2021, among which i) MAUs on our self-owned platform products decreased 14.6% year-over-year from 134.2 million to 114.6 million, as we experienced a higher user traffic during the COVID-19 pandemic period in the first half of 2020; and ii) MAUs on our self-operated channels on Tencent products increased 19.1% year-over-year from 99.2 million to 118.1 million, as we continued to expand our free-to-read business and thus attracted more users during the first half of 2021.
- As we continued to expand our free-to-read business and attracted more users to read our free content, average MPUs on our self-owned platform products and self-operated channels decreased by 12.3% year-over-year from 10.6 million to 9.3 million for the six months ended June 30, 2021.
- For our pay-to-read business, monthly ARPU increased by 6.7% year-over-year from RMB34.1 to RMB36.4 for the six months ended June 30, 2021, reflecting users' greater willingness to pay for high-quality content as we further improved our content operations, enhanced community features and optimized recommendation algorithms for paid content during the first half of 2021.

In June 2021, average DAUs for our free-to-read channels reached approximately 13 million.

- Revenues from intellectual property operations and others increased by 124.5% year-over-year to RMB1,802.2 million for the six months ended June 30, 2021.

Revenues from intellectual property operations increased by 129.8% year-over-year to RMB1,740.1 million for the six months ended June 30, 2021. The increase was primarily due to the growth in revenues generated from our TV and web series, films, IP licensing, and self-operated online game businesses during the first half of 2021.

Revenues from others increased by 36.0% year-over-year to RMB62.1 million for the six months ended June 30, 2021, primarily due to resumed sales of physical books in the first half of 2021.

Cost of revenues. Cost of revenues increased by 34.4% year-over-year to RMB2,054.1 million for the six months ended June 30, 2021, mainly due to increases in i) content costs as we expanded our IP licensing and free-to-read businesses, ii) production costs of TV series, web series and films along with revenue increase, and iii) amortization of intangible assets of the copyrights of content.

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

	Six months ended June 30,			
	2021		2020	
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>% of</i> <i>revenues</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>% of</i> <i>revenues</i>
Content costs	800,085	18.4	583,608	17.9
Platform distribution costs	609,620	14.0	619,313	19.0
Amortization of intangible assets	242,749	5.6	82,865	2.5
Production costs of TV, web and animated series and films	223,574	5.1	68,113	2.1
Cost of inventories	33,512	0.8	59,887	1.8
Others	144,541	3.4	115,108	3.6
Total cost of revenues	2,054,081	47.3	1,528,894	46.9

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 32.2% year-over-year to RMB2,288.1 million for the six months ended June 30, 2021. Gross margin was 52.7% for the six months ended June 30, 2021, as compared with 53.1% for the six months ended June 30, 2020.

Interest income. Interest income decreased by 2.3% to RMB60.6 million for the six months ended June 30, 2021, reflecting lower interest income from bank deposits.

Other gains/(losses), net. We recorded net other gains of RMB901.1 million for the six months ended June 30, 2021, compared with net other losses of RMB3,529.7 million for the corresponding period last year. The other gains for the six months ended June 30, 2021 mainly consisted of i) a gain of RMB1,076.8 million related to the sale of our equity interest in Shenzhen Lanren, ii) gains of RMB134.0 million on disposal of certain intangible assets, and iii) fair value gains of RMB55.0 million resulting from increased valuations of investee companies. These gains were partially offset by a fair value loss of RMB383.2 million due to a change in fair value of consideration liabilities related to the acquisition of NCM.

Selling and marketing expenses. Selling and marketing expenses increased by 6.1% year-over-year to RMB1,348.2 million for the six months ended June 30, 2021, mainly driven by greater promotion and advertising expenses for our films and drama series during the first half of 2021. As a percentage of revenues, our selling and marketing expenses decreased to 31.0% for the six months ended June 30, 2021 from 39.0% for the six months ended June 30, 2020.

General and administrative expenses. General and administrative expenses increased by 81.1% year-over-year to RMB635.1 million for the six months ended June 30, 2021, primarily due to i) a reversal of compensation costs of RMB116.7 million related to the service expense of certain employees and former owners of NCM in the first half of 2020, ii) an annual increase in employee benefit expenses, iii) an increase in research and development expenses related to our self-operated online game as revenue increased, and iv) an increase in office, travelling and entertainment expenses compared to the corresponding period last year. As a percentage of revenues, general and administrative expenses increased to 14.6% for the six months ended June 30, 2021 from 10.8% for the six months ended June 30, 2020.

Net reversal of/(provision for) impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the six months ended June 30, 2021, we reversed a provision for doubtful receivables of RMB17.5 million on a net basis, mainly related to TV and web series.

Operating profit/(loss). As a result of the foregoing, we had an operating profit of RMB1,284.0 million for the six months ended June 30, 2021, as compared with an operating loss of RMB3,555.6 million in the prior corresponding period.

Finance costs. Finance costs decreased by 9.2% year-over-year to RMB34.6 million for the six months ended June 30, 2021. The decrease was mainly due to lower interest expenses incurred in the first half of 2021.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased 41.7% to RMB115.9 million for the six months ended June 30, 2021, reflecting greater profits generated from our investee companies.

Income tax (expense)/benefit. Income tax expense was RMB284.4 million for the six months ended June 30, 2021, as compared with an income tax benefit of RMB201.3 million for the same period of last year.

Profit/(loss) attributable to equity holders of the Company. We had a profit attributable to equity holders of the Company of RMB1,082.7 million for the six months ended June 30, 2021, as compared with a loss attributable to equity holders of the Company of RMB3,295.9 million for the six months ended June 30, 2020.

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the six months ended June 30, 2021 and 2020:

	Six months ended June 30, 2021		
	Online business <i>RMB'000</i> <i>(Unaudited)</i>	Intellectual property operations and others <i>RMB'000</i> <i>(Unaudited)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	1,336,007	718,074	2,054,081
Gross profit	<u>1,203,949</u>	<u>1,084,116</u>	<u>2,288,065</u>
Gross margin	<u>47.4%</u>	<u>60.2%</u>	<u>52.7%</u>
	Six months ended June 30, 2020		
	Online business <i>RMB'000</i> <i>(Restated)</i>	Intellectual property operations and others <i>RMB'000</i> <i>(Restated)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
Segment revenues	2,457,276	802,930	3,260,206
Cost of revenues	1,132,821	396,073	1,528,894
Gross profit	<u>1,324,455</u>	<u>406,857</u>	<u>1,731,312</u>
Gross margin	<u>53.9%</u>	<u>50.7%</u>	<u>53.1%</u>

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
EBITDA ⁽¹⁾	626,859	59,585
Adjusted EBITDA ⁽²⁾	708,887	17,117
Adjusted EBITDA margin ⁽³⁾	16.3%	0.5%
Interest expense	32,381	33,873
Net cash ⁽⁴⁾	5,691,918	4,530,411
Capital expenditures ⁽⁵⁾	117,778	125,083

Notes:

- (1) EBITDA consists of operating profit/(loss) for the period 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 period plus share-based compensation expense and expenditures related to acquisitions.
- (3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.
- (4) Net cash is calculated as cash and cash equivalents and term deposits, less total borrowings.
- (5) Capital expenditures consist of expenditures for intangible assets and property, plant and equipment.

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

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating profit/(loss)	1,284,000	(3,555,563)
Adjustments:		
Interest income	(60,617)	(62,048)
Other (gains)/losses, net	(901,146)	3,529,736
Depreciation of property, plant and equipment	9,479	11,466
Depreciation of right-of-use assets	32,442	32,641
Amortization of intangible assets	262,701	103,353
EBITDA	626,859	59,585
Adjustments:		
Share-based compensation	53,729	52,152
Expenditures related to acquisition	28,299	(94,620)
Adjusted EBITDA	708,887	17,117

Non-IFRS Financial Measure:

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

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

The following tables set forth the reconciliations of our Group's non-IFRS financial measures for the six months ended June 30, 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2021					
	Adjustments				Tax effect	Non-IFRS
	As reported	Share-based compensation	Net (gain) from investments and	Amortization of intangible		
			acquisition ⁽¹⁾	assets ⁽²⁾		
			<i>(RMB' 000, unless specified)</i>			
Operating profit	1,284,000	53,729	(716,738)	20,469	–	641,460
Profit for the period	1,080,950	53,729	(716,738)	20,469	224,787	663,197
Profit attributable to equity holders of the Company	1,082,742	53,729	(716,738)	20,469	224,787	664,989
EPS (RMB per share)						
– basic	1.08					0.66
– diluted	1.07					0.66
Operating margin	29.6%					14.8%
Net margin	24.9%					15.3%

Unaudited six months ended June 30, 2020

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

Notes:

- (1) For the six months ended June 30, 2021, this item includes disposal gains and fair value changes arising from 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. For the six months ended June 30, 2020, this item includes impairment provision of goodwill, trademark rights and long-term investments related to certain investee companies, fair value changes arising from investee companies, fair value gains on consideration liabilities related to the acquisition of NCM and the reversal of compensation costs for certain employees and former owners of NCM.
- (2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets increased from RMB21,315.8 million as of December 31, 2020 to RMB22,609.4 million as of June 30, 2021, while our total liabilities increased from RMB6,217.3 million as of December 31, 2020 to RMB6,227.7 million as of June 30, 2021. Liabilities-to-assets ratio decreased from 29.2% as of December 31, 2020 to 27.5% as of June 30, 2021.

As of June 30, 2021, the current ratio (the ratio of total current assets to total current liabilities) was 276.1%, compared with 272.7% as of December 31, 2020.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from related parties and banks. As of June 30, 2021, our Group had net cash of RMB5,691.9 million, compared with RMB5,011.0 million as of December 31, 2020. The increase in net cash in the first half of 2021 was mainly due to the sale of our equity interest in Shenzhen Lanren in cash and the cash generated from our operating activities. The increase was partially offset by capital expenditures, cash outflow for investment activities, and the earn-out cash consideration paid for the acquisition of NCM based on its 2020 financial performance. Our bank balances and term deposits are primarily in RMB, USD and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2021:

- Our gearing ratio was 7.5%, compared with 8.3% as of December 31, 2020.
- Our total borrowings were RMB1,220.5 million, which were primarily denominated in RMB and USD.
- Our unutilized banking facility was RMB2,475.3 million.

As of June 30, 2021 and December 31, 2020, our Group had no significant contingent liabilities.

As of June 30, 2021 and December 31, 2020, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of content and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the six months ended June 30, 2021 totalled RMB705.7 million, compared with RMB125.1 million for the six months ended June 30, 2020, representing a year-over-year increase of RMB580.6 million which was primarily due to greater expenditure for investments in the first half of 2021. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flow generated from our operations.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily in RMB, HKD, USD, THB and SGD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the six months ended June 30, 2021 and 2020.

Employees

As of June 30, 2021, we had approximately 1,950 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

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

NEW CLASSICS MEDIA

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in TV series, web series and film production and distribution in China. NCM, on a standalone basis, recorded RMB667.3 million in revenues and RMB291.4 million in profit attributable to equity holders of the company for the six months ended June 30, 2021.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) FOR THE SIX MONTHS ENDED JUNE 30, 2021

		Six months ended June 30,	
		2021	2020
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenues	5	4,342,146	3,260,206
Cost of revenues	6	<u>(2,054,081)</u>	<u>(1,528,894)</u>
Gross profit		2,288,065	1,731,312
Interest income		60,617	62,048
Other gains/(losses), net	7	901,146	(3,529,736)
Selling and marketing expenses	6	(1,348,209)	(1,270,264)
General and administrative expenses	6	(635,087)	(350,665)
Net reversal of/(provision for) impairment losses on financial assets		<u>17,468</u>	<u>(198,258)</u>
Operating profit/(loss)		1,284,000	(3,555,563)
Finance costs		(34,561)	(38,080)
Share of net profit of associates and joint ventures	12	<u>115,939</u>	<u>81,827</u>
Profit/(loss) before income tax		1,365,378	(3,511,816)
Income tax (expense)/benefit	8	<u>(284,428)</u>	<u>201,291</u>
Profit/(loss) for the period		<u>1,080,950</u>	<u>(3,310,525)</u>
Other comprehensive (loss)/income:			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive loss of associates and joint ventures		(2,352)	(65)
Currency translation differences		(40,598)	77,566
<i>Items that may not be reclassified to profit or loss</i>			
Net gain from change in fair value of financial asset at fair value through other comprehensive income		5,912	—
Currency translation differences		<u>(2,154)</u>	<u>—</u>
		<u>(39,192)</u>	<u>77,501</u>
Total comprehensive income/(loss) for the period		<u>1,041,758</u>	<u>(3,233,024)</u>

		Six months ended June 30,	
		2021	2020
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit/(loss) attributable to:			
	– Equity holders of the Company	1,082,742	(3,295,874)
	– Non-controlling interests	(1,792)	(14,651)
		<u>1,080,950</u>	<u>(3,310,525)</u>
Total comprehensive income/(loss) attributable to:			
	– Equity holders of the Company	1,044,054	(3,218,373)
	– Non-controlling interests	(2,296)	(14,651)
		<u>1,041,758</u>	<u>(3,233,024)</u>
Earnings/(loss) per share			
(expressed in RMB per share)			
	– Basic earnings/(loss) per share	9(a) <u>1.08</u>	<u>(3.30)</u>
	– Diluted earnings/(loss) per share	9(b) <u>1.07</u>	<u>(3.31)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021

		As of June 30, 2021 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2020 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		41,035	39,590
Right-of-use assets		95,967	83,275
Intangible assets	11	7,483,852	7,676,063
Investments in associates and joint ventures	12	696,073	598,576
Financial assets at fair value through profit or loss	13	1,270,242	915,318
Financial asset at fair value through other comprehensive income	14	38,550	—
Deferred income tax assets		239,266	188,519
Prepayments, deposits and other assets		269,201	314,088
		<u>10,134,186</u>	<u>9,815,429</u>
Current assets			
Inventories	15	581,440	571,830
Television series and film rights	16	950,960	640,496
Trade and notes receivables	17	3,357,985	3,296,287
Prepayments, deposits and other assets		672,465	734,808
Term deposits		2,328,842	3,408,679
Cash and cash equivalents		4,583,553	2,848,231
		<u>12,475,245</u>	<u>11,500,331</u>
Total assets		<u><u>22,609,431</u></u>	<u><u>21,315,760</u></u>

		As of June 30, 2021 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2020 <i>RMB'000</i>
	<i>Note</i>		
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		647	645
Shares held for RSU scheme		(12,208)	(9)
Share premium		16,459,663	16,259,688
Other reserves		1,283,229	1,268,188
Accumulated losses		(1,352,263)	(2,435,005)
		<u>16,379,068</u>	<u>15,093,507</u>
Non-controlling interests		<u>2,704</u>	<u>5,000</u>
Total equity		<u>16,381,772</u>	<u>15,098,507</u>
LIABILITIES			
Non-current liabilities			
Borrowings	19	487,606	691,494
Lease liabilities		35,913	34,830
Long-term payables		12,256	16,894
Deferred income tax liabilities		156,105	187,603
Deferred revenue		30,000	31,346
Financial liabilities at fair value through profit or loss		<u>986,772</u>	<u>1,037,924</u>
		<u>1,708,652</u>	<u>2,000,091</u>
Current liabilities			
Borrowings	19	732,871	554,444
Lease liabilities		57,364	50,387
Trade payables	20	1,078,406	1,039,653
Other payables and accruals		1,251,739	1,149,708
Deferred revenue		811,086	880,333
Current income tax liabilities		199,339	184,459
Financial liabilities at fair value through profit or loss		<u>388,202</u>	<u>358,178</u>
		<u>4,519,007</u>	<u>4,217,162</u>
Total liabilities		<u>6,227,659</u>	<u>6,217,253</u>
Total equity and liabilities		<u>22,609,431</u>	<u>21,315,760</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	Attributable to equity holders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	(Accumulated losses)/ retained earnings RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
(Unaudited)								
As of January 1, 2021	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507
Comprehensive income/(loss)								
Profit/(loss) for the period	-	-	-	-	1,082,742	1,082,742	(1,792)	1,080,950
Other comprehensive loss								
– Share of other comprehensive loss of associates and a joint venture	-	-	-	(2,352)	-	(2,352)	-	(2,352)
– Currency translation differences	-	-	-	(42,248)	-	(42,248)	(504)	(42,752)
– Net gain from change in fair value of financial asset at fair value through other comprehensive income	-	-	-	5,912	-	5,912	-	5,912
Total comprehensive income/(loss) for the period	-	-	-	(38,688)	1,082,742	1,044,054	(2,296)	1,041,758
Transaction with owners								
Share-based compensation expenses	-	-	-	53,729	-	53,729	-	53,729
Repurchase of shares for RSU scheme	-	-	(12,201)	-	-	(12,201)	-	(12,201)
Transfer of vested RSUs	-	(2,052)	2	-	-	(2,050)	-	(2,050)
Issue of ordinary shares as consideration for a business combination	2	202,027	-	-	-	202,029	-	202,029
Transactions with owners in their capacity for the period	2	199,975	(12,199)	53,729	-	241,507	-	241,507
As of June 30, 2021	<u>647</u>	<u>16,459,663</u>	<u>(12,208)</u>	<u>1,283,229</u>	<u>(1,352,263)</u>	<u>16,379,068</u>	<u>2,704</u>	<u>16,381,772</u>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash generated from operating activities	<u>430,027</u>	<u>540,941</u>
Net cash generated from/(used in) investing activities	<u>1,449,707</u>	<u>(3,485,580)</u>
Net cash flows (used in)/generated from financing activities	<u>(124,709)</u>	<u>486,394</u>
Net increase/(decrease) in cash and cash equivalents	1,755,025	(2,458,245)
Cash and cash equivalents at beginning of the period	2,848,231	5,931,849
Exchange (losses)/gains on cash and cash equivalents	<u>(19,703)</u>	<u>41,414</u>
Cash and cash equivalents at end of the period	<u><u>4,583,553</u></u>	<u><u>3,515,018</u></u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

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

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

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

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

The interim financial information comprises the consolidated statement of financial position as of June 30, 2021, the related consolidated statement of comprehensive income/(loss), the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “*Interim Financial Reporting*” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2020 annual report of the Company dated March 23, 2021 (the “2020 Financial Statements”).

3 Significant accounting policies

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2020 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including contingent consideration payable) at fair value through profit or loss, which are carried at fair value.

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

3.1 Amendments to standards and interpretations adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2
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3.2 New standards and amendments to standards that have been issued but not effective

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2021 and have not been early adopted by the Group in preparing the interim financial information. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IFRS IFRS 17	Annual Improvements to IFRS Standards 2018-2020 Cycle Insurance contract	January 1, 2022 January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023

4 Segment information

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

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

The Group has the following reportable segments for the six months ended June 30, 2021 and 2020:

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

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

As of June 30, 2021 and 2020, the chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net reversal of/(provision for) impairment loss on financial assets, other gains/(losses), net, finance costs, share of profit of investments accounted for using equity method and income tax (expense)/benefit are also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2021 and 2020. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated statement of comprehensive income/(loss).

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

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

5 Revenues

5.1 Disaggregation of revenue from contracts with customers

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

	Online business			Intellectual property operations and others		Total
	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	
(Unaudited)						
Six months ended June 30, 2021	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:						
– At a point in time	1,718,435	252,451	305,846	806,420	59,472	3,142,624
– Over time	162,219	101,005	–	933,666	2,632	1,199,522
	<u>1,880,654</u>	<u>353,456</u>	<u>305,846</u>	<u>1,740,086</u>	<u>62,104</u>	<u>4,342,146</u>
	Online business			Intellectual property operations and others		Total
	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	
(Unaudited)						
Six months ended June 30, 2020	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000	RMB'000
Timing of revenue recognition:						
– At a point in time	1,848,937	210,834	159,343	317,723	41,268	2,578,105
– Over time	140,811	97,351	–	439,557	4,382	682,101
	<u>1,989,748</u>	<u>308,185</u>	<u>159,343</u>	<u>757,280</u>	<u>45,650</u>	<u>3,260,206</u>

6 Expenses by nature

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Promotion and advertising expenses	1,091,655	1,027,799
Content costs	800,085	583,608
Platform distribution costs	609,620	619,313
Employee benefits expenses	497,530	260,847
Amortisation of intangible assets	262,701	103,353
Production costs of TV, web and animated series and films	219,231	45,688
Payment handling costs	166,438	167,560
Game development outsourcing costs	146,994	55,557
Bandwidth and server custody fees	41,052	34,493
Depreciation of right-of-use assets	32,442	32,641
Impairment loss on prepayments to directors, actors and writers	20,000	26,000
Cost of physical inventories sold	19,945	20,557
Professional service fees	18,912	31,646
Travelling, entertainment and general office expenses	18,092	15,789
Provision for physical inventory obsolescence	13,567	39,330
Tax surcharge expenses	9,565	2,419
Depreciation of property, plant and equipment	9,479	11,466
Auditors' remuneration		
– Audit services	5,417	5,150
– Non-audit services	96	482
Impairment loss on television series and film rights	4,343	22,425
Logistic expenses	2,462	2,397
Expense relating to short-term leases	1,700	2,350
Others	46,051	38,953
	4,037,377	3,149,823

7 Other gains/(losses), net

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on sale of held for sale asset	1,076,817	–
Gain on disposals of intangible assets	133,962	–
Fair value gain/(loss) of investments in redeemable shares of associates	50,195	(8,999)
Subsidies and tax rebates	38,292	48,449
Gain on copyright infringements	6,253	8,541
Fair value gain of investment in a listed entity	4,842	2,337
Fair value (loss)/gain on remeasurement of contingent consideration payable	(383,228)	1,240,750
Impairment loss of other intangible assets	(25,776)	(537,086)
Loss on liquidation of subsidiaries	(3,590)	–
Impairment loss of goodwill	–	(4,015,854)
Loss on disposal of film rights and a television series	–	(10,038)
Impairment provision for investments in associates and a joint venture	–	(251,960)
Others	3,379	(5,876)
	901,146	(3,529,736)

8 Income tax expense/(benefit)

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

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

(b) Hong Kong profit tax

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

(c) PRC corporate income tax

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

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

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

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	366,673	47,211
Deferred income tax	(82,245)	(248,502)
Income tax expense/(benefit)	<u>284,428</u>	<u>(201,291)</u>

9 Earnings/(loss) per share

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit/(loss) attributable to the equity holders of the Company	1,082,742	(3,295,874)
Weighted average number of ordinary shares outstanding (thousand)	<u>1,005,546</u>	<u>998,186</u>
Basic earnings/(loss) per share (expressed in RMB per share)	<u>1.08</u>	<u>(3.30)</u>

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

For the six months ended June 30, 2021, the Company has the dilutive potential ordinary shares of restricted shares units (“RSUs”) granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company’s shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings. For the six months ended June 30, 2020, the potential ordinary shares of RSU granted to employees were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive.

The impact of potential ordinary shares to be issued by an associate of the Group into ordinary shares of the associate is included in the computation of earnings per share for the six months ended June 30, 2021 as the impact would be dilutive. The impact of potential ordinary shares to be issued by a joint venture of the Group into ordinary shares of the joint venture is included in the computation of loss per share for the six months ended June 30, 2020 as the impact would be dilutive.

	Six months ended June 30,	
	2021	2020
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Net profit/(loss) attributable to the equity holders of the Company	1,082,742	(3,295,874)
Impact of a joint venture’s potential ordinary shares	–	(6,944)
Impact of an associate’s potential ordinary shares	(161)	–
	<hr/>	<hr/>
Net profit/(loss) used to determine earnings/(loss) per share	1,082,581	(3,302,818)
	<hr/>	<hr/>
Weighted average number of ordinary shares outstanding (thousand)	1,005,546	998,186
Adjustments for share-based compensation – RSUs (thousand)	9,423	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	1,014,969	998,186
	<hr/>	<hr/>
Diluted earnings/(loss) per share (expressed in RMB per share)	1.07	(3.31)
	<hr/>	<hr/>

10 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2021 and 2020.

11 Intangible assets

	Goodwill	Non- compete agreement	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)								
Six months ended June 30, 2021								
Opening net book amount								
as of January 1, 2021	6,637,471	43,023	597,816	367,885	21,999	5,660	2,209	7,676,063
Additions	-	-	377	99,152	-	2,863	-	102,392
Amortisation	-	(7,717)	(10,368)	(235,210)	(7,333)	(2,022)	(51)	(262,701)
Impairment provision	-	-	-	(25,776)	-	-	-	(25,776)
Liquidation of a subsidiary	(4,664)	-	-	-	-	-	-	(4,664)
Currency translation differences	-	-	-	(1,462)	-	-	-	(1,462)
Closing net book amount								
as of June 30, 2021	<u>6,632,807</u>	<u>35,306</u>	<u>587,825</u>	<u>204,589</u>	<u>14,666</u>	<u>6,501</u>	<u>2,158</u>	<u>7,483,852</u>
	Goodwill	Non- compete agreement	Trademarks	Copyrights of contents	Writers' contracts	Software	Domain names	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)								
Six months ended June 30, 2020								
Opening net book amount								
as of January 1, 2020	10,653,325	17,283	1,105,697	349,847	36,666	3,670	2,311	12,168,799
Additions	-	38,840	-	100,913	-	2,237	-	141,990
Amortisation	-	(5,384)	(13,598)	(75,310)	(7,333)	(1,677)	(51)	(103,353)
Impairment provision	(4,015,854)	-	(483,930)	(53,121)	-	(35)	-	(4,552,940)
Currency translation differences	-	-	-	977	-	-	-	977
Closing net book amount								
as of June 30, 2020	<u>6,637,471</u>	<u>50,739</u>	<u>608,169</u>	<u>323,306</u>	<u>29,333</u>	<u>4,195</u>	<u>2,260</u>	<u>7,655,473</u>

As of June 30, 2021 and December 31, 2020, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Online business	3,715,659	3,720,323
Acquired TV and film business	<u>2,917,148</u>	<u>2,917,148</u>
	<u>6,632,807</u>	<u>6,637,471</u>

12 Investments in associates and joint ventures

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Investments in associates (a)	230,940	248,206
Investments in joint ventures (b)	<u>465,133</u>	<u>350,370</u>
	<u>696,073</u>	<u>598,576</u>

(a) Investments in associates

	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
At the beginning of the period	248,206	469,943
Additions	10,000	–
Share of net profit/(loss) of associates	1,011	(1,233)
Share of other comprehensive loss of associates	(2,364)	(990)
Impairment provision	–	(214,837)
Currency translation differences	<u>(25,913)</u>	<u>2,228</u>
At the end of the period	<u>230,940</u>	<u>255,111</u>

(b) Investments in joint ventures

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	350,370	493,608
Share of net profit of the joint ventures	114,928	83,060
Share of other comprehensive income of a joint venture	12	925
Impairment provision	–	(37,123)
Currency translation differences	(177)	464
	<hr/>	<hr/>
At the end of the period	465,133	540,934
	<hr/> <hr/>	<hr/> <hr/>

(c) Joint operations

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

13 Financial assets at fair value through profit or loss

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

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

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

FVPL include the following:

	As of	As of
	June 30,	December 31,
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	
Included in non-current assets:		
Investments in redeemable shares of associates	1,216,104	890,444
Investments in unlisted entities	12,000	12,000
Investment in a listed entity	17,589	12,874
Investments in movies and TV series	24,549	–
	<hr/>	<hr/>
	1,270,242	915,318
	<hr/> <hr/>	<hr/> <hr/>

Movement of FVPL is analysed as follows:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
At the beginning of the period	915,318	457,185
Additions	304,593	–
Changes in fair value recognised as other gains/(losses), net	55,037	717,298
Changes in fair value recognised as revenues	(1,684)	–
Disposal	(1,497)	–
Currency translation difference	(1,525)	538
	<hr/>	<hr/>
At the end of the period	1,270,242	1,175,021
	<hr/> <hr/>	<hr/> <hr/>

14 Financial asset at fair value through other comprehensive income

FVOCI include the following:

	As of	As of
	June 30,	December 31,
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	
Included in non-current assets:		
Investment in a listed entity	38,550	–
	<hr/> <hr/>	<hr/> <hr/>

Movement of FVOCI is analysed as follows:

	Six months ended June 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
At the beginning of the period	–	–
Additions	33,050	–
Changes in fair value	5,912	–
Currency translation difference	(412)	–
	<hr/>	<hr/>
At the end of the period	38,550	–
	<hr/> <hr/>	<hr/> <hr/>

15 Inventories

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Adaptation rights and scripts	521,624	510,718
Raw materials	9,382	9,251
Work in progress	6,223	9,947
Inventories in warehouse	68,954	74,573
Inventories held with distributors on consignment	75,774	76,609
Others	1,499	3,051
	<hr/>	<hr/>
	683,456	684,149
Less: provision for inventory obsolescence	(102,016)	(112,319)
	<hr/>	<hr/>
	581,440	571,830
	<hr/> <hr/>	<hr/> <hr/>

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the six months ended June 30, 2021, the cost of inventories, including provision for inventory obsolescence, recognised as expense and included in “cost of revenues” amounted to approximately RMB87,025,000 (six months ended June 30, 2020: RMB103,271,000).

During the six months ended June 30, 2021, write-downs of inventories to net realisable value and reversal of write-downs of inventories that recognised as expense and included in “cost of revenues” were amounting to approximately RMB13,567,000 and RMB23,870,000 (six months ended June 30, 2020: RMB44,435,000 and RMB10,485,000), respectively.

16 Television series and film rights

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Television series and film rights		
– under production	912,389	586,173
– completed	38,571	54,323
	<hr/>	<hr/>
	950,960	640,496
	<hr/> <hr/>	<hr/> <hr/>

	Under production RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2021	586,173	54,323	640,496
Additions	485,582	–	485,582
Transfer from under production to completed	(207,822)	207,822	–
Transfer from adaptation rights and scripts to under production	48,456	–	48,456
Recognised in cost of revenues (<i>Note a</i>)	–	(223,574)	(223,574)
As of June 30, 2021 (<i>Note b</i>)	912,389	38,571	950,960

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

Notes:

- (a) During the six months ended June 30, 2021, impairment loss of television series and film rights that recognised as “cost of revenues” was approximately RMB4,343,000 (six months ended June 30, 2020: RMB22,425,000).
- (b) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

17 Trade and notes receivables

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

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Trade and notes receivables		
– Up to 3 months	1,707,613	2,380,858
– 3 to 6 months	248,989	99,594
– 6 months to 1 year	832,660	88,302
– 1 to 2 years	501,484	711,222
– Over 2 years	67,239	16,311
	<u>3,357,985</u>	<u>3,296,287</u>

As of June 30, 2021 and December 31, 2020, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated their fair value as of June 30, 2021 and December 31, 2020.

18 Share-based payments

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

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

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

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

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

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

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

On January 4, 2021 and April 12, 2021, 570,343 and 124,112 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

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

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

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

On April 12, 2021, 81,436 RSUs have been granted to certain directors and employees of the Group under the 2020 Restricted Share Unit Scheme. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2021	14,613,446
Granted	775,891
Forfeited	(2,056,030)
Vested	<u>(1,118,900)</u>
Outstanding balance as of June 30, 2021	<u>12,214,407</u>
(Unaudited)	
As of January 1, 2020	15,214,100
Granted	725,000
Forfeited	(709,600)
Vested	<u>(1,126,500)</u>
Outstanding balance as of June 30, 2020	<u>14,103,000</u>

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

19 Borrowings

	As of June 30, 2021 <i>RMB'000</i> <i>(Unaudited)</i>	As of December 31, 2020 <i>RMB'000</i>
Non-current		
<i>Unsecured</i>		
RMB bank borrowings <i>(Note a)</i>	100,000	300,000
USD bank borrowings <i>(Note a)</i>	<u>387,606</u>	<u>391,494</u>
Total non-current borrowings	<u>487,606</u>	<u>691,494</u>
Current		
<i>Unsecured</i>		
RMB bank borrowings <i>(Note a)</i>	<u>732,871</u>	<u>554,444</u>
Total borrowings	<u>1,220,477</u>	<u>1,245,938</u>

Note:

- (a) As of June 30, 2021, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 bearing fixed interest rate of 5.70% per annum and USD60,000,000 (approximately RMB387,606,000) bearing fixed interest rate of 1.41% per annum. The long-term bank borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and other subsidiaries of the Group. The long-term borrowings will be repayable from April 19, 2022 to February 28, 2023. As of June 30, 2021, the borrowing balance of RMB200,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after June 30, 2021.

As of December 31, 2020, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 bearing fixed interest rate of 5.70% per annum and approximately RMB391,494,000 variable-rate borrowings bearing floating interest rate of London Inter-bank Offered Rate ("LIBOR") plus 1.10% per annum. The variable rate long-term bank borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and other subsidiaries of the Group. These borrowings will be repayable from April 19, 2022 to September 2, 2022. The other variable rate long-term bank borrowings of approximately RMB391,494,000 will be repayable in February 28, 2023.

As of June 30, 2021, the Group's unsecured short-term bank borrowings consisted of approximately RMB532,871,000 borrowings bore fixed interest rate ranging from 4.85% to 5.10% per annum. The short-term bank borrowings of RMB532,871,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

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

20 Trade payables

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

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
– Up to 3 months	658,945	746,347
– 3 to 6 months	130,393	116,074
– 6 months to 1 year	132,253	51,144
– 1 to 2 years	96,719	74,939
– Over 2 years	60,096	51,149
	1,078,406	1,039,653

DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2021 (2020: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Corporate Governance Code

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

For the six months ended June 30, 2021, the Company has complied with all applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries by the Company, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2021.

Audit Committee

The Audit Committee, together with the Board and the Auditor has reviewed the unaudited interim results of the Group for the six months ended June 30, 2021. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and Internal Control Systems of the Company, and considered the risk management and Internal Control Systems to be effective and adequate.

Publication of the Results Announcement and Interim Report

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

APPRECIATION

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

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

Chairman of the Board and Non-Executive Director

Hong Kong, August 16, 2021

As of the date of this announcement, the Board comprises Mr. Cheng Wu and Mr. Hou Xiaonan as Executive Directors; Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu as Non-Executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent Non-Executive Directors.

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

DEFINITION

“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Board”	:	the board of Directors of the Company;
“CG Code”	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
“China” or the “PRC”	:	the People’s Republic of China;
“Company”, “our Company”, “the Company” or “China Literature”	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
“COVID-19”	:	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC and worldwide since around January 2020;
“DAUs”	:	daily active users who access our platform through our products or our self-operated channels on Tencent products at least once during the day in question;
“Director(s)”	:	the director(s) of our Company;
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
“HKD”	:	the lawful currency of Hong Kong;
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IP”	:	intellectual property;
“Listing Date”	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;

“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Main Board”	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
“MAUs”	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
“Model Code”	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
“MPUs”	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
“New Classics Media Holdings Limited (NCM)”	:	previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
“Reporting Period”	:	the six months ended June 30, 2021;
“RMB”	:	the lawful currency of the PRC;
“RSU(s)”	:	restricted stock unit(s);
“SGD”	:	the lawful currency of Singapore;
“Shanghai Yuewen”	:	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014;
“Share(s)”	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
“Shareholders”	:	holder(s) of our Share(s);

“Shenzhen Lanren”	:	Shenzhen Lanren Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012;
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Tencent”	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700);
“Tencent Pictures”	:	Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary of Tencent;
“THB”	:	Thai Baht, the lawful currency of Thailand;
“USD”	:	the lawful currency of the United States; and
“Yuewen Media”	:	Shanghai Yuewen Media Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司), one of the Consolidated Affiliated Entities of the Company, and a company established in the PRC with limited liability.