阅文集团

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

Annual Report 2021

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Cheng Wu *(Chief Executive Officer)*
Mr. Hou Xiaonan *(President)*

Non-executive Directors

Mr. James Gordon Mitchell *(Chairman)*
Mr. Cao Huayi
Mr. Cheng Yun Ming Matthew
Mr. Zou Zhengyu
(appointed on May 24, 2021)
Mr. Wu Wenhui *(Vice-Chairman)*
(retired on April 26, 2021)

Independent Non-executive Directors

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

Audit Committee

Ms. Yu Chor Woon Carol *(Chairman)*
Ms. Leung Sau Ting Miranda
Mr. Cheng Yun Ming Matthew

Remuneration Committee

Ms. Leung Sau Ting Miranda *(Chairman)*
Ms. Yu Chor Woon Carol
Mr. James Gordon Mitchell
(appointed on December 9, 2021)
Mr. Cheng Wu *(resigned on December 9, 2021)*

Nomination Committee

Mr. James Gordon Mitchell *(Chairman)*
Ms. Yu Chor Woon Carol
Mr. Liu Junmin

Strategy and Investment Committee

Mr. Cheng Wu *(Chairman)*
Mr. James Gordon Mitchell
Mr. Hou Xiaonan
Mr. Zou Zhengyu *(appointed on May 24, 2021)*
Mr. Wu Wenhui *(retired on April 26, 2021)*

Authorized Representatives

Mr. Cheng Wu
Ms. Cheng Pui Yan

Joint Company Secretaries

Ms. Xu Lan
Ms. Cheng Pui Yan

Legal Advisors

As to Hong Kong laws:
Clifford Chance
27/F, Jardine House
One Connaught Place
Hong Kong

As to Cayman Islands laws:
Maples and Calder (Hong Kong) LLP
26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

CORPORATE INFORMATION

Registered Office
The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head Office and Principal Place of Business in China
Block 6, No. 690 Bi Bo Road
Pudong XinQu
Shanghai
PRC

Principal Place of Business in Hong Kong
Room 1503-04
ICBC Tower
3 Garden Road, Central
Hong Kong

Principal Share Registrar and Transfer Office
Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Banker
Shanghai Huangpu Sub-branch of
Bank of Communications
No. 99 Huaihai East Road
Shanghai
PRC

Company's Website
http://ir.yuewen.com/

Stock Code
772

FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	**8,668,244**	8,525,701	8,347,767	5,038,250	4,095,066
Gross Profit	**4,599,443**	4,234,076	3,692,023	2,557,979	2,075,440
Operating profit/(loss)	**2,172,640**	(4,474,668)	1,193,907	1,114,951	614,563
Profit/(loss) before income tax	**2,303,068**	(4,538,720)	1,179,797	1,077,801	645,730
Profit/(loss) for the year	**1,842,927**	(4,500,197)	1,112,134	912,398	562,692
Profit/(loss) attributable to equity holders of the Company	**1,846,609**	(4,483,869)	1,095,953	910,636	556,129
Total comprehensive income/(loss) for the year	**1,764,723**	(4,532,508)	1,167,355	1,342,293	412,562
Total comprehensive income/(loss) attributable to equity holders of the Company	**1,769,207**	(4,516,202)	1,151,165	1,340,538	405,999
Non-IFRS profit attributable to equity holders of the Company	**1,229,721**	917,105	1,194,618	900,490	721,817

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**10,567,004**	9,815,429	14,059,479	13,556,968	5,703,237
Current assets	**12,730,310**	11,500,331	12,190,525	14,277,638	9,434,131
Total assets	**23,297,314**	21,315,760	26,250,004	27,834,606	15,137,368
Equity and liabilities					
Equity attributable to equity holders of the Company	**17,186,455**	15,093,507	19,396,567	18,403,478	12,621,196
Non-controlling interests	**516**	5,000	14,244	11,567	41,514
Total equity	**17,186,971**	15,098,507	19,410,811	18,415,045	12,662,710
Non-current liabilities	**1,598,833**	2,000,091	925,546	2,823,250	710,492
Current liabilities	**4,511,510**	4,217,162	5,913,647	6,596,311	1,764,166
Total liabilities	**6,110,343**	6,217,253	6,839,193	9,419,561	2,474,658
Total equity and liabilities	**23,297,314**	21,315,760	26,250,004	27,834,606	15,137,368

CHAIRMAN'S STATEMENT

I hereby present our annual report for the year ended December 31, 2021 to our shareholders. In 2021, China Literature realized total revenues of RMB8.7 billion, up 2% year-over-year. Revenues from our online business increased 10% year-over-year, and revenues from our IP operations business increased over 30% year-over-year, excluding the revenue contribution from New Classics Media, which declined due to a change in its project mix. Profit attributable to equity holders of the Company under non-IFRS measures increased 34% year-over-year to RMB1.23 billion, driven by increases in profits from both our main business and New Classics Media. Looking beyond the immediate financial results, we began implementing our IP metamorphosis strategy, consisting of three stages to elevate the value of literary IP:

- First, we adapt literary IP to media-rich products – visualization of IP.
- Second, we enhance the commercial value of IP via initiatives such as merchandising.
- Third, we elongate the life cycle of IP, such that it can be passed down from one generation to the next.

We believe this strategy will lay the foundation for the evolution of China Literature over the next decade, providing IP with the opportunity to generate dividends for our authors and your company over the long term.

Business Highlights

• IP Creation – Literature Business

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

– On the supply side, the creativity of our writers allows us to accumulate high-quality IP at scale. In 2021, our platform added 700,000 writers, 1.2 million literary works, and 36 billion Chinese character count. In addition to quantity, we enhanced quality, thanks to the healthy ecosystem we have developed which helps writers to fulfill their creative potential. We are particularly pleased with our ability to help young writers find success: among all the newly added writers of China Literature in 2021, approximately 80% were born after 1995; out of the top 12 rookies of the year, 5 are under age 27.

– On the user side, our online business reached a historic high of 249 million monthly active users in 2021. We attribute the user growth to our efforts to improve our content, ecosystem, community features and recommendation efficiency.

• Visualization of IP

Visualization from print to image is crucial for text-based IP to tap into new audiences and extend its influence. By visualizing stories we create a mutually reinforcing cycle, where high quality stories enjoy a greater chance of success during visualization, and visualized IP, once successful, can attract more audiences to the original literary story.

CHAIRMAN'S STATEMENT

- In the live action TV and film segment, China Literature and New Classics Media have rolled out numerous blockbusters. Alongside the ongoing success of established hits such as My Heroic Husband (贅婿), Soul Land (斗羅大陸), The Rebel (叛逆者) and Hi, Mom (你好，李煥英), we released new breakout successes such as drama series A Lifelong Journey (人世間), adapted from the Mao Dun Literature Prize-winning fiction by contemporary writer Liang Xiaosheng. The series set an 8-year record for CCTV-1 prime time ratings, topped all charts across the internet, and won wide acclaim. We also released the IP-adapted drama series Sword Snow Stride (雪中悍刀行), which demonstrates the modern Wuxia spirit and the culture of Jianghu with contemporary characteristics. This series attained nearly 7 billion video views. Our stories are also generating interest in international markets. For example, the overseas broadcasting rights of A Lifelong Journey have been licensed to Disney; and My Heroic Husband was licensed to Watcha, a Korean streaming media platform, for a live action adaptation. Looking ahead, we will continue to work on serial development of high-value China Literature-sourced dramas, such as Joy of Life (慶餘年), My Heroic Husband, and Dafeng Guardian (大奉打更人), as well as continuing to produce highly-acclaimed contemporary series, in which New Classics Media has built an industry-leading reputation.

- In the animation segment, we launched two new seasons of Battle Through the Heavens (斗破蒼穹), which together achieved over 4 billion video views. The overall Battle Through the Heavens series has exceeded 10 billion video views, higher than the most-watched Japanese anime on Tencent Video platform. Stellar Transformations (星辰變) is also emerging as a heavyweight IP, with four seasons and over 3 billion total video views to date. We released several productions which generated deep audience acclaim, including Da Wang Rao Ming (大王饒命) and Cinderella Chef Season 2 (萌妻食神之再結良緣). Among the top 10 newly released animations on the Tencent Video platform in 2021, 5 were adapted from China Literature IPs.

- In the comics segment, our production capacity rapidly increased. In late 2020, we and Tencent Comics announced a joint project to adapt 300 online literary works into comics over three years. Today, over 100 adapted comic works have already been launched on Tencent Comics platform. Some titles have become blockbusters, such as Dafeng Guardian, which hit 100,000 "favorite" views within 44 hours after launch. Converting literary works into comics before further adaptation into animations and dramas helps China Literature build a character universe at a lower cost, while systematically testing the response of a core audience group, which will improve the hit rate of subsequent adaptations into audio-visual formats.

- In the games segment, we continued to license our IP to quality game studios. For example, two new games based on Soul Land were among the fifteen-most-successful new mobile game releases in China in 2021, according to Gamma Data (CNG).

CHAIRMAN'S STATEMENT

- ## Commercialization of IP: Theme Characters and Merchandise

In 2021, we focused on building a foundation for this business, via IP planning, setting up an image data base, and building up design capacity for IP merchandise. We selectively worked with partners in the consumer goods, fashion toys and retail sectors to kick off pilot projects. As users increasingly value authenticity, enjoy greater spending power, and become more willing to spend on IP merchandise, we will seek to develop IP derivatives and work closely with our partners to drive the growth of this business, and manifest our intellectual properties into physical products which solidify their audience relationships.

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

Our ultimate goal is to create IP with staying power – stories that will live forever. "Create" refers to the incubation and cultivation of our literary ecosystem, to help the best stories emerge and become the source of quality IP (settings, characters, and storylines). "Live forever" refers to supporting comics, animation, film and television, games, merchandise and other forms, which amplify the best stories, so that they become shared experiences for generations.

Some of our most popular IPs have already proven their longevity for over a decade. Soul Land was created 14 years ago, and The King's Avatar(全職高手)is 11 years old. Their ongoing success speaks to their underlying quality, as well as our continuing support. We are now iterating and institutionalizing how best to support the highest quality content, so that literary hits can become comics, animation, film and television hits, with the staying power to last from one generation to the next. Consequently, we are adapting many classic IPs of China Literature into new versions. We are also working on IP series development, for example, producing sequels for both the TV series Joy of Life and My Heroic Husband, and we will continue to launch new seasons for our animation and comics series. And we are helping authors create the long-lasting IP of the future by offering digital tools that strengthen author-reader connection today. We hope that in each generation, there will be new interpretations of these IPs, bearing the distinctive characteristics of that particular era, enabling the stories to resonate with new generations of fans. If we can realize this ambition, these IPs will become the cornerstone assets of China Literature's, and its authors' and partners', long-term value.

- ## Overseas Business

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

Appreciation

Finally, I would like to thank our management and employees for their efforts and contributions; our Board of Directors for its guidance and support; our shareholders for their continued trust in our business; and our writers and users for participating in the creation and enjoyment of China Literature's stories, characters, and worlds.

Sincerely,
Mr. James Gordon Mitchell
Chairman of the Board and Non-Executive Director
Hong Kong, March 22, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Notes:

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

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

(3) Starting from January 1, 2021, revenues from online audio books and online comic content provided via Tencent and third-party platforms have been reclassified from the "online business" segment to the "intellectual property operations and others" segment to better reflect the Group's current businesses. We restated our prior-period figures to conform to the current-period's presentation.

– Revenues from online business increased by 9.6% to RMB5,308.5 million for the year ended December 31, 2021 on a year-over-year basis, accounting for 61.2% of total revenues.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

Notes:

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

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

- As we continued to expand our free-to-read business and attracted more users to read our free content, average MPUs on our self-owned platform products and self-operated channels decreased by 14.7% year-over-year from 10.2 million to 8.7 million for the year ended December 31, 2021.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year ended December 31,			
	2021		2020	
	RMB'000	**% of revenues**	RMB'000	% of revenues
Content costs	**1,774,189**	**20.5**	1,464,506	17.2
Platform distribution costs	**1,151,009**	**13.3**	1,194,357	14.0
Production costs of TV, web and animated series and films	**430,698**	**5.0**	1,111,884	13.0
Amortization of intangible assets	**354,829**	**4.1**	175,706	2.1
Cost of inventories	**72,245**	**0.8**	94,617	1.1
Others	**285,831**	**3.2**	250,555	2.9
Total cost of revenues	**4,068,801**	**46.9**	4,291,625	50.3

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Net reversal of/(provision for) impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the year ended December 31, 2021, we reversed a provision for doubtful receivables of RMB24.4 million on a net basis, as a result of the collection of receivables related to TV and web series which were impaired in prior years.

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the year ended December 31, 2021 and 2020:

	Year ended December 31, 2021		
	Online business RMB'000	**Intellectual property operations and others RMB'000**	**Total RMB'000**
Segment revenues	**5,308,471**	**3,359,773**	**8,668,244**
Cost of revenues	**2,690,334**	**1,378,467**	**4,068,801**
Gross profit	**2,618,137**	**1,981,306**	**4,599,443**
Gross margin	**49.3%**	**59.0%**	**53.1%**

	Year ended December 31, 2020		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
Segment revenues	4,843,860	3,681,841	8,525,701
Cost of revenues	2,325,709	1,965,916	4,291,625
Gross profit	2,518,151	1,715,925	4,234,076
Gross margin	52.0%	46.6%	49.7%

MANAGEMENT DISCUSSION AND ANALYSIS

Other Financial Information

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

Notes:

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

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

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

(4) Net cash is calculated as cash and cash equivalents, term deposits and restricted bank deposits, less total borrowings.

(5) Capital expenditures consist of expenditures for intangible assets and property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Non-IFRS Financial Measures:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating profit, non-IFRS operating margin, non-IFRS profit for the year, non-IFRS net margin, non-IFRS profit attributable to equity holders of the Company, non-IFRS basic EPS and non-IFRS diluted EPS as additional financial measures, have been presented in this annual report 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31, 2020					
		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 (loss)/profit	(4,474,668)	120,204	5,259,633	29,433	–	934,602
(Loss)/profit for the year	(4,500,197)	120,204	5,422,551	29,433	(171,214)	900,777
(Loss)/profit attributable to equity holders of the Company	(4,483,869)	120,204	5,422,551	29,433	(171,214)	917,105
(Loss)/earnings per share *(RMB per share)*						
– basic	(4.48)					0.92
– diluted	(4.49)					0.91
Operating margin	(52.5%)					11.0%
Net margin	(52.8%)					10.6%

Notes:

(1) For the year ended December 31, 2021, this item includes disposal gains and fair value changes arising from investee companies, fair value changes of consideration liabilities related to the acquisition of NCM, expenses related to acquisition and impairment provision of long-term investments. For the year ended December 31, 2020, this item includes impairment provision of goodwill, trademark rights and long-term investments related to certain investee companies, fair value changes arising from investee companies, fair value changes on consideration liabilities related to the acquisition of NCM and the reversal of compensation costs for certain employees and former owners of NCM.

(2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The Company continued to maintain a sound financial position. Our total assets increased from RMB21,315.8 million as of December 31, 2020 to RMB23,297.3 million as of December 31, 2021, while our total liabilities decreased from RMB6,217.3 million as of December 31, 2020 to RMB6,110.3 million as of December 31, 2021. The liabilities-to-assets ratio decreased from 29.2% as of December 31, 2020 to 26.2% as of December 31, 2021.

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

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

Liquidity and Financial Resources

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as content and software copyrights, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the year ended December 31, 2021 totalled RMB1,400.2 million, compared with RMB386.2 million for the year ended December 31, 2020, representing a year-over-year increase of RMB1,014.0 million. The increase was primarily due to greater expenditure for investments in 2021. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in RMB, HKD, USD, JPY and SGD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure and tries to minimize exposure through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any movement in foreign currency during the year ended December 31, 2021 and 2020.

Employees

As of December 31, 2021, we had approximately 2,000 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

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

Impact of COVID-19

In 2021, the COVID-19 pandemic posed challenges and created opportunities at the same time for global economy and enterprises worldwide. However, the Chinese government adopted several effective measures to curb spread of the outbreak. At the same time, the Group has closely monitored the latest development of COVID-19 so as to adopt proactive measures to overcome any challenges arising and to assess the related impact on an ongoing basis. For the year of 2021, COVID-19 did not have material adverse impact on the operation, financial condition and cash flows of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Acquisition of New Classics Media and Issue of Consideration Shares under the Specific Mandate

On October 31, 2018, the Company completed the acquisition of 100% of the equity interest in NCM which is primarily engaged in production and distribution of TV series, web series and films in the PRC. NCM, on a standalone basis, recorded RMB1,216.9 million in revenues and RMB533.8 million in profit attributable to equity holders of the Company for the year ended December 31, 2021.

Issue of Consideration Shares under the New Earn Out Mechanism

Reference is made to:

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board hereby announces that the actual Net Profit, as defined in the Circular and primarily excluding the impact of government subsidies for the year ended December 31, 2021, was RMB506.1 million, which is higher than the Reference Maximum Net Profit of RMB500 million. In accordance with the terms of the Supplemental SPA Deed, a total number of 3,021,371 Consideration Shares would be issued ("2021 Earn Out Issue") and a total cash consideration of RMB204.0 million would be paid to the Management Vendors, and the issue of the Consideration Shares and the payment of the cash consideration would be subject to certain customary conditions as determined by the Board to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of the annual results announcement of the Company dated March 22, 2022 (the "Announcement") and immediately upon the completion of the 2021 Earn Out Issue:

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

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out as follows:

Directors

Executive Directors

Mr. Cheng Wu

Aged 47, is an Executive Director and the Chief Executive Officer appointed on April 27, 2020. He is a chairman of the Strategy and Investment Committee of the Company, and is also a director of certain subsidiaries of the Company.

Mr. Cheng joined the Group on April 27, 2020. He is responsible for the overall strategic planning and business direction of the Company. Mr. Cheng has been serving as a Vice President of Tencent since March 2013 and as the chief executive officer of Tencent Pictures and Culture Communication Co., Ltd. ("Tencent Pictures") since September 2015. He is responsible for strategic planning and day-to-day operation of Tencent Pictures, Shenzhen Tencent Animation and Comics Co., Ltd. and Tencent Esports. In addition, he is responsible for the management of Tencent's Marketing and Public Relations Department. Mr. Cheng is also as an executive director and vice chairman of Huayi Tencent Entertainment Company Limited (listed on the Stock Exchange under the stock code: 0419) and a non-executive director of Maoyan Entertainment (listed on the Stock Exchange under the stock code: 01896). Mr. Cheng graduated from Tsinghua University with a Bachelor of Science degree in Physics. He also gained an EMBA from the Olin Business School at Washington University.

Mr. Cheng currently holds positions in the following members of the Group:

- Cloudary as a director;
- Cloudary HK as a director;
- China Reading HK as a director;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- China Reading Co., Ltd. as a director;
- Shanghai Yueting as the chairman of the board of directors;
- Shanghai Yuechao as a chairman of the board of directors;
- Shanghai Yuewen as a chairman of the board of directors and general manager;
- Shanghai Hongwen as the chairman of the board of directors;
- Shanghai Xuanting as an executive director;
- Shanghai Qiwen as an executive director and manager;
- Yuewen Film as an executive director;
- Hainan Yuewen Information Technology Co., Ltd. as an executive director;
- Beijing Yuewen Science and Technology Co., Ltd. as an executive director and manager;
- Tianjin Xuanting Information Technology Co., Ltd. as an executive director;
- Ningbo Yuewen Wenxing Investment Management Co., Ltd. as an executive director;
- Ningbo Xihe Investment Management Co., Ltd. as an executive director;

DIRECTORS AND SENIOR MANAGEMENT

- Tianjin Yuewen Film and Television Culture Communication Co., Ltd. as an executive director and manager;
- Shengyun Information Technology as the chairman of the board of directors;
- Yueting Information Technology (Tianjin) Co., Ltd. as an executive director;
- Yueting Information Technology (Hainan) Co., Ltd. as the chairman of the board of directors;
- New Classics Media Co., Ltd. as a director; and
- New Classics (Tianjin) Media Technology Co., Ltd. as a director.

Mr. Hou Xiaonan

Aged 42, is an Executive Director and the President of the Company appointed on April 27, 2020. He is a member of the Strategy and Investment Committee of the Company, and also holds directorship in certain subsidiaries of the Company.

Mr. Hou joined the Group on April 27, 2020. He is responsible for the overall strategic planning and business direction of the Company. Mr. Hou has been serving as the vice president of Platform and Content Group of Tencent since November 2018 and currently holds various management positions in Tencent, including Tencent Open Platform, Tencent YingYongBao, Tencent WeStart, Qingteng University and Tencent Content Library. He has extensive and in-depth management experience in product planning and operation, business model innovation, resource integration and ecosystem cooperation. Mr. Hou graduated from Beijing University of Aeronautics and Astronautics in 2003, majoring in computer science, and holds an EMBA degree.

Mr. Hou currently holds positions in the following members of the Group:

- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- Shanghai Yueting as a director and general manager;
- Shanghai Yuechao as a director and general manager;
- Shanghai Yuewen as a director;
- Shanghai Hongwen as a director and general manager;
- Shanghai Xuanting as a general manager;
- Shanghai Yuehuo Information Technology Co., Ltd. as an executive director and manager;
- Yuewen Film as a manager;
- Hainan Yuewen Information Technology Co., Ltd. as a general manager;
- Hainan Yuehai Information Technology Co., Ltd. as an executive director;
- Tianjin Xuanting Information Technology Co., Ltd. as a manager;
- Shanghai Yuejian Information Technology Co., Ltd. as the chairman of the board of directors;
- Shenzhen Yuerong Information Technology Co., Ltd. as an executive director;
- Beijing Hongwenguan Publishing Planning Co., Ltd. as the chairman of the board of directors;

DIRECTORS AND SENIOR MANAGEMENT

- Yueting Information Technology (Shanghai) Co., Ltd. Beijing Branch as a principal;
- Yueting Information Technology (Tianjin) Co., Ltd. as a manager;
- Yueting Information Technology (Hainan) Co., Ltd. as a vice-chairman of the board of directors;
- Shengyun Information Technology as a director and general manager;
- Qisheng Culture Communication (Tianjin) Co., Ltd. as a manager;
- Tianjin Zhongzhi Bowen Book Co., Ltd. as the chairman of the board of directors;
- Tianjin Huawen Tianxia Book Co., Ltd. as the chairman of the board of directors;
- New Classics Media Corporation as a director; and
- New Classics (Tianjin) Media Technology Co., Ltd. as a director.

Non-executive Directors

Mr. James Gordon Mitchell

Aged 48, is a Non-Executive Director and the Chairman of the Board, since June 2017. He is also the chairman of the Company's Nomination Committee, a member of the Remuneration Committee, and a member of the Strategy and Investment Committee. Mr. Mitchell serves as Senior Executive Vice President and Chief Strategy Officer of Tencent Holdings (HKEX: 00700), where he has worked since July 2011. He is also a director of certain other listed companies including Frontier Developments Plc (AIM: FDEV), NIO Inc. (NYSE: NIO), Tencent Music Entertainment Group (NYSE: TME), Universal Music Group (EURONEXT: UMG), and of several unlisted companies. Prior to joining Tencent, Mr. Mitchell was a managing director at Goldman Sachs. He is a CFA and received a degree from Oxford University.

Mr. Cao Huayi

Aged 57, is a Non-Executive Director appointed on May 17, 2019 and also holds directorship in certain subsidiaries of the Company. He is the founding shareholder of Xinli (Tianjin) Media Technology Limited ("Xinli Media"). He has been the chairman of the board of directors of Xinli Media since 2007 and has served as the general manager of Xinli Media since 2013. Before the establishment of Xinli Media, Mr. Cao Huayi successively served as the general manager of Zhongsheng Chunqiu Film and Television Culture (Beijing) Co., Ltd.（中聖春秋影視文化（北京）有限公司）and the manager of Beijing Jiying Culture Company（北京集英文化公司）. From 1986 to 1995, Mr. Cao served as a literary editor of Beijing Huayi Publishing House（北京華藝出版社）. He graduated from the Department of Journalism at Fudan University and received a bachelor's degree of arts from Fudan University.

Mr. Cao currently holds positions in the following members of the Group:

- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- New Classics International Media Limited as a director;
- New Classics Media Group Limited as the chairman of the board of directors; and
- Xinli (Tianjin) Media Technology Co., Ltd. as the chairman of the board of directors.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng Yun Ming Matthew

Aged 51, is a Non-Executive Director and a member of the Audit Committee of the Board appointed on 22 November 2019. He joined the Tencent Group in November 2010, and currently serves as the corporate vice president of the Tencent Group. Mr. Cheng also currently serves as a non-executive director of Fusion Bank Limited(富融銀行有限公司) since March 2019, non-executive director of Tongcheng Travel Holdings Limited (listed on the Stock Exchange under the stock code: 0780) since April 2020 and a director of HUYA Inc., a company listed on the New York Stock Exchange (the "NYSE") (NYSE: HUYA), since February 2021. Mr. Cheng was a non-executive director of Yixin Group Limited (listed on the Stock Exchange under the stock code: 2858) from May 2021 to April 2022. Prior to joining the Tencent Group, Mr. Cheng worked at Price Waterhouse, an accounting firm currently known as PricewaterhouseCoopers, from 1992 to 1997, China Everbright Technology Limited (currently known as Citychamp Watch & Jewellery Group Limited) (listed on the Stock Exchange under the stock code: 0256), a company principally engaged in manufacturing of computer peripherals, from 1997 to 2000 and various companies assuming financial management functions. Mr. Cheng is a fellow member of the Association of Chartered Certified Accountants. He has obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in October 1992.

Mr. Cheng currently holds positions in the following members of the Group:

- China Reading HK as a director; and
- Cloudary as a director.

Mr. Zou Zhengyu

Aged 43, is a Non-Executive Director appointed on May 24, 2021. He joined Tencent Technology (Shenzhen) Co., Ltd. in January 2005 and held several positions in the marketing department and copyright business department consecutively. He currently serves as the vice president of Tencent Pictures and Culture Communication Co., Ltd. ("Tencent Pictures") and holds various management positions. Prior to joining Tencent Pictures, Mr. Zou worked as a product manager and a marketing manager of Shenzhen YLINK Computing System Co., Ltd. from December 2001 to December 2004. He has extensive and in-depth management experience in product planning and operation. Mr. Zou has obtained a bachelor's degree in international corporate management from Dongbei University of Finance and Economics in July 2000.

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Aged 59, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee of the Company. Ms. Yu is responsible to provide independent opinion and judgment to the Board. She is an independent director of China Distance Education Holdings Limited (listed on the New York Stock Exchange under symbol, NYSE: DL). She held positions including director, company secretary and vice president for finance at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited) from December 2000 to January 2002, was the president and chief financial officer of Sohu.com Inc. between March 2004 and July 2016, and has been the chief executive officer of Virtues Holding Limited since February 2017. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Leung Sau Ting Miranda

Aged 54, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Ms. Leung is responsible to provide independent opinion and judgment to the Board. She was a trainee at the London office of Slaughter and May from September 1990 to September 1992, an associate in the firm's Hong Kong and London offices from September 1992 to September 2001, and a partner in the firm between September 2001 and November 2016. Ms. Leung was also a director of the Lion Academy Trust from September 2015 to June 2019 and a director of CCBI Metdist Limited from November 2018 to November 2020. She has been a director of Indochina Starfish Foundation since July 2019 and a member of the with-profits committee of the board of Aviva Insurance UK since March 2020. Ms. Leung qualified as a solicitor in England & Wales in December 1992, and as a solicitor in Hong Kong in August 1993. She received her bachelor's degree in arts from Oxford University.

Mr. Liu Junmin

Aged 72, is an Independent Non-executive Director appointed on October 26, 2017. He is a member of the Nomination Committee of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He is also an independent non-executive director of Chinese People Holdings Company Limited (listed on the Stock Exchange under the stock code: 00681). He taught in Tianjin University of Finance and Economics, and served as a lecturer from September 1982 to December 1992. He has been teaching in the Department of Economics of Nankai University since December 1992, as an associate professor from December 1993 to December 1998, and as a professor since December 1998. Mr. Liu was an independent non-executive director of China Huarong Asset Management Co., Ltd. (listed on the Stock Exchange under the stock code: 02799) from June 2015 to October 2020 and an independent director in China Railway Materials Co., Ltd. (listed on Shenzhen Stock Exchange under the stock code: 000927) from November 2016 to December 2020. Mr. Liu graduated from Nankai University with a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctorate degree in economics in July 1994.

Senior Management

Mr. Cheng Wu

Mr. Cheng is an Executive Director and the Chief Executive Officer of the Company. See the paragraphs headed "– Directors – Executive Directors" for his biography.

Mr. Hou Xiaonan

Mr. Hou is an Executive Director and the President of the Company. See the paragraphs headed "– Directors – Executive Directors" for his biography.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

Principal Activities

The principal activities of the Group include operating online literature platform, providing literary content and producing TV series and film. The activities of the principal subsidiaries are set out in Note 37 to the consolidated financial statements.

Results

The results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of comprehensive income/(loss) on page 122 of this annual report.

Final Dividend

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

Business Review

The business review and performance analysis of the Group for the Reporting Period is set out in the section headed "Chairman's Statement" from pages 5 to 7 and "Management Discussion and Analysis" from pages 8 to 22 of this annual report.

Major Suppliers and Customers

Major Suppliers

For the year ended December 31, 2021, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

Major Customers

For the year ended December 31, 2021, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 32 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out on pages 125 to 126 in the consolidated statement of changes in equity and Note 33 and 39 to the consolidated financial statements.

REPORT OF DIRECTORS

Distributable Reserves

As of December 31, 2021, the Company's reserves available for distribution, amounted to approximately RMB13,057 million (as of December 31, 2020: RMB12,897 million).

Dividend Policy

The Board has adopted the Dividend Policy to set out the criteria based on which the Board may declare and pay dividends to the shareholders of the Company. Such declaration and payment of dividends shall remain to be determined at the absolute discretion of the Board and subject to all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the Companies Law of the Cayman Islands and the Articles of Association of the Company.

The Board may from time to time pay to the shareholders such interim dividends subject to the Companies Law of the Cayman Islands and the Articles of Association of the Company. Except in the case of interim dividends, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at an annual general meeting and must not exceed the amount recommended by the Board. Dividends may be distributed in the form of cash or shares subject to and in accordance with the Companies Law of the Cayman Islands and the Articles of Association of the Company. In proposing any dividend payment, the Board shall take into account the following criteria, including:

- the Group's actual and expected results of operations and cash flow and financial position;
- general business conditions and the Group's business strategies;
- distributable profit, retained earnings and/or distributable reserves of the Company and the members of the Group;
- the Group's expected working capital requirements and future expansion plans;
- the Group's indebtedness level and liquidity position;
- legal, regulatory and other contractual restrictions on the Group's declaration and payment of dividends; and
- other factors that the Board deems appropriate.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2021 are set out in Note 28 to the consolidated financial statements.

Directors

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors:

Mr. Cheng Wu *(Chief Executive Officer)*
Mr. Hou Xiaonan *(President)*

Non-Executive Directors:

Mr. James Gordon Mitchell *(Chairman)*
Mr. Cao Huayi
Mr. Cheng Yun Ming Matthew
Mr. Zou Zhengyu *(appointed on May 24, 2021)*
Mr. Wu Wenhui *(Vice-chairman)*
(retired on April 26, 2021)

REPORT OF DIRECTORS

Independent Non-Executive Directors:

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

In accordance with Article 16.18 of the Articles of Association, Mr. Cheng Wu, Mr. James Gordon Mitchell and Ms. Yu Chor Woon Carol will retire at the AGM and, being eligible, will offer themselves for re-election as Directors at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders to be dispatched before the AGM.

Directors and Senior Management

Biographical details of the Directors and senior management of the Company are set out on pages 23 to 27 of this annual report.

Mr. Wu Wenhui, retired as a non-executive Director and vice-chairman of the Board from April 26, 2021 in order to allocate more time for his personal affairs.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent during the Reporting Period.

Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from August 1, 2020 and is subject to retirement by rotation and re-election in accordance with the Articles of Association as a replacement of the service contract entered into between the Company and the executive Directors on April 27, 2020, and is subject to termination as provided in the service contract.

Each of Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu, as the non-executive Director, has entered into an appointment letter with the Company on June 30, 2020, May 17, 2019, November 22, 2019 and May 24, 2021, respectively, for an initial term of three years commencing from the date of their respective appointment letter, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on June 30, 2020 for an initial term of three years, subject to re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF DIRECTORS

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Remuneration Policy

A remuneration committee was set up for reviewing the Group's remuneration policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in Note 8 to the consolidated financial statements.

Retirement and Employee Benefits Scheme

Details of the retirement and employee benefits scheme of the Company are set out in Note 8 to the consolidated financial statements.

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As of December 31, 2021, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept, pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Interests of Directors and Chief Executives of the Company

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company[1] (%)
Mr. James Gordon Mitchell	Beneficial owner	281,352	Long position	0.03
Mr. Cao Huayi[2]	Interest in controlled corporations	40,396,163	Long position	3.95
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00
Mr. Cheng Wu	Beneficial owner	4,204,400[3]	Long position	0.41
Mr. Hou Xiaonan	Beneficial owner	2,287,072[4]	Long position	0.22

REPORT OF DIRECTORS

Interests of Directors and Chief Executives in Associated Corporations of the Company

Name	Name of Associated Corporations	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in Associated Corporations (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	12,078,326[5]	0.13
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	0.00
Mr. Cheng Yun Ming Matthew	Tencent Holdings Limited	Beneficial owner	548,833[6]	0.01
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	188,188[7]	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	122,501[8]	0.00

Notes:

(1) The calculation is based on the total number of 1,022,026,549 Shares in issue as at December 31, 2021.

(2) As at December 31, 2021, Mr. Cao Huayi was interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and was therefore deemed to be interested in the 34,118,942 Shares and 6,277,221 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement respectively.

(3) As at December 31, 2021, these interests comprised (i) 1,136,292 Shares, (ii) 168,108 underlying Shares in respect of the RSUs granted to Mr. Cheng Wu under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,900,000 underlying Shares in respect of the Options granted to Mr. Cheng Wu under the 2021 Share Option Plan.

(4) As at December 31, 2021, these interests comprised (i) 28,018 Shares, (ii) 84,054 underlying Shares in respect of the RSUs granted to Mr. Hou Xiaonan under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,175,000 underlying Shares in respect of the Options granted to Mr. Hou Xiaonan under the 2021 Share Option Plan.

(5) As at December 31, 2021, these interests comprised (i) 2,419,585 shares of Tencent, (ii) 1,662,621 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 7,996,120 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(6) As at December 31, 2021, these interests comprised (i) 347,755 shares of Tencent, (ii) 48,031 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award schemes of Tencent, and (iii) 153,047 shares underlying Tencent in respect of the options granted to Mr. Cheng Yun Ming Matthew under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(7) As at December 31, 2021, these interests comprised (i) 43,673 shares of Tencent, (ii) 3,708 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award schemes of Tencent, and (iii) 140,807 shares underlying Tencent in respect of the options granted to Mr. Cheng Wu under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(8) As at December 31, 2021, these interests comprised (i) 107,050 shares of Tencent, and (ii) 15,451 shares underlying Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

Save as disclosed above, as of December 31, 2021, none of the Directors or chief executives of the Company has or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the year ended December 31, 2021, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of December 31, 2021, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company[1] (%)
Tencent Holdings Limited[2]	Interest in controlled corporations	587,128,824	Long position	57.45
THL A13 Limited[2]	Beneficial owner	278,085,720	Long position	27.21
Qinghai Lake Investment Limited[2]	Beneficial owner	230,705,634	Long position	22.57
Tencent Mobility Limited[2]	Beneficial owner	78,337,470	Long position	7.66

Notes:

(1) The calculation is based on the total number of 1,022,026,549 Shares in issue as of December 31, 2021.

(2) As at December 31, 2021, THL A13, Qinghai Lake and Tencent Mobility Limited were wholly-owned subsidiaries of Tencent. Under the SFO, Tencent was deemed to be interested in 587,128,824 Shares directly held by THL A13, Qinghai Lake and Tencent Mobility Limited in aggregate.

REPORT OF DIRECTORS

Save as disclosed above, as of December 31, 2021, the Directors and the chief executives of the Company were not aware of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Restricted Stock Unit Plan

Our Company adopted its RSU Plan as approved by the Board resolution passed on December 23, 2014 and amended by the Board resolution passed on March 12, 2016. The RSU Plan commenced on December 23, 2014 and shall continue in effect for a term of ten (10) years unless sooner terminated. Certain principal terms and details of the RSU Plan are summarized as follows:

Purpose

The purpose of the RSU Plan is to promote the success and enhance the value of our Company, by linking the personal interests of our employees, directors or consultants, by providing such individual employees, directors or consultants with an incentive for outstanding performance, to generate superior returns to the Shareholders. The RSU Plan is further intended to provide flexibility in our ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of our operation is largely dependent.

Eligible Participants

Those eligible to participate in the RSU Plan include employees, all members of the Board or consultants of a Group company, as determined by the Administrator. The Administrator may, from time to time, select the employees, directors and consultants to whom Awards may be granted and will determine the nature and amount of each Award. No consideration is required to be paid by the grantees for the grant of an Award of RSUs.

Maximum Numbers of Shares

A total of 40,409,091 Shares have been issued to Link Apex Holdings Limited and Peak Income Group Limited which are holding the Shares on trust. The Board shall have the sole and absolute discretion to increase the number of Shares which may be issued pursuant to all Awards under the RSU Plan by 1% of the total Shares of our Company on a fully diluted basis, subject to compliance with all applicable laws and regulations (including the Listing Rules).

Administration

We have appointed a trustee to assist the Administrator with the administration of the RSU Plan and grant and vesting of RSUs. Subject to applicable laws and the provisions of the RSU Plan (including any other powers given to the Administrator under the RSU Plan).

Restricted Stock Units

Award of Restricted Stock Units

The Administrator shall have the authority (a) to grant an Award of Restricted Stock Units to the employees, Directors and consultants, (b) to issue or transfer RSUs to grantees, and (c) to establish terms, conditions and restrictions applicable to such RSUs including the Restricted Period (as defined below), which may differ with respect to each grantee, the time or times at which RSUs shall be granted or become vested and the number of Shares to be covered by each grant.

Upon the expiration of the Restricted Period (as defined below) and the attainment of any other vesting criteria established by the Administrator, with respect to any outstanding RSUs, our Company shall deliver to the grantee, or his or her beneficiary, without charge, one Share (or other securities or other property, as applicable) for each of such outstanding RSU which has not then been forfeited and with respect to which the Restricted Period (as defined below) has expired and any other such vesting criteria are attained; provided, however, that the Administrator may, in its sole discretion, elect to pay cash or part cash and part Shares in lieu of delivering only Shares in respect of such RSUs. If a cash payment is made in lieu of delivering Shares, the amount of such payment shall be equal to the fair market value of the Shares as of the date on which the Restricted Period (as defined below) lapsed with respect to such RSUs, less an amount equal to any taxes required to be withheld.

The grantee generally shall not have the rights and privileges of a shareholder as to the Shares covered by the RSUs, including the right to vote unless and until such RSUs are settled in Shares.

Subject to relevant provisions in the applicable Award Agreement and at the discretion of the Administrator, cash dividends and stock dividends with respect to the RSUs may be set aside our Company for the grantee's account. The cash dividends or stock dividends so set aside by the Administrator and attributable to any particular RSU shall be distributed to the grantee upon the release of settlement of such RSU and, if such Award is forfeited, the grantee shall have no right to such cash dividends or stock dividends.

Restricted Period

The Restricted Period of RSUs shall commence on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement.

Details of the RSUs Granted under the RSU Plan

The RSUs granted in respect of 18,552,500 underlying Shares (excluding the RSUs forfeited) on December 23, 2014 have a vesting period of five years, one-fifth of which will each vest on December 23, 2015, 2016, 2017, 2018 and 2019 respectively.

The RSUs granted in respect of 5,782,500 underlying Shares (excluding the RSUs forfeited) on January 17, 2017 have a vesting period of five years, one-fifth of which will each vest on January 17, 2018, 2019, 2020, 2021 and 2022 respectively.

The RSUs granted in respect of 7,100,000 underlying Shares (excluding the RSUs, forfeited) on September 4, 2017 have a vesting period of five years, one-fifth of which will each vest on September 4, 2018, 2019, 2020, 2021 and 2022 respectively.

REPORT OF DIRECTORS

The RSUs granted in respect of 3,900,500 underlying Shares (excluding the RSUs, forfeited) on October 29, 2018 have a vesting period of five years, one-fifth of which will each vest on October 29, 2019, 2020, 2021, 2022 and 2023 respectively.

The RSUs granted in respect of 5,690,000 underlying Shares (excluding the RSUs, forfeited) on April 10, July 11 and November 5, 2019 have a vesting period of five years, one-fifth of which will each vest on April 10, July 11, November 5, 2020, 2021, 2022, 2023 and 2024 respectively.

The RSUs granted in respect of 1,574,360 underlying Shares (excluding the RSUs, forfeited) on April 9 and September 4, 2020 have a vesting period of five years, one-fifth of which will each vest on April 9 and September 4, 2021, 2022, 2023, 2024 and 2025 respectively.

The RSUs granted in respect of 1,886,489 underlying Shares (excluding the RSUs, forfeited) on January 4, April 12, July 12, October 18 and November 5, 2021 have a vesting period of five years, one-fifth of which will each vest on January 4, April 12, July 12, October 18 and November 5, 2022, 2023, 2024, 2025 and 2026 respectively.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2021	**10,709,518**
Granted	**1,886,489**
Forfeited	**(1,868,744)**
Vested	**(3,422,423)**
Outstanding balance as of December 31, 2021	**7,304,840**
As of January 1, 2020	15,214,100
Granted	1,574,360
Forfeited	(2,227,242)
Vested	(3,851,700)
Outstanding balance as of December 31, 2020	10,709,518

REPORT OF DIRECTORS

2020 Restricted Share Unit Scheme

Our Company adopted its 2020 Restricted Share Unit Scheme as approved by the Board resolution passed on May 15, 2020. The 2020 Restricted Share Unit Scheme commenced on May 15, 2020 and shall continue in effect for a term of ten (10) years unless sooner terminated.

Purposes and Objectives

The purposes of the 2020 Restricted Share Unit Scheme are to (i) recognise the contributions by the participants with an opportunity to acquire a proprietary interest in the Company; (ii) encourage and retain such individuals for the continual operation and development of the Group; (iii) provide additional incentives for them to achieve performance goals; (iv) attract suitable personnel for further development of the Group; and (v) motivate the participants to maximize the value of the Company for the benefits of both the participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the participants directly to the Shareholders through ownership of Shares.

Scheme Limit

The aggregate number of new shares of the Company to be issued under all RSUs granted under the 2020 Restricted Share Unit Scheme shall not exceed 45,710,177 shares of the Company, represents 4.5% of the total number of issued share capital of the Company as at May 29, 2020. Without prejudice to the foregoing, the total number of Shares underlying the RSUs to be granted under the 2020 Restricted Share Unit Scheme in any financial year will not exceed three per cent. (3%) of the issued Shares as at the beginning of that financial year. The maximum number of Shares which may be awarded to any one participant under the 2020 Restricted Share Unit Scheme may not exceed one per cent. (1%) of the issued Shares as at May 15, 2020.

Administration

The 2020 Restricted Share Unit Scheme shall be subject to the administration of the Board in accordance with the terms and conditions of the 2020 Restricted Share Unit Scheme, and the Company may appoint a trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme. The trustee does not exercise any voting rights in respect of any Shares held under the trust or as nominee.

The Board shall have the sole and absolute right to, among others, determine the grantee who is either (i) a Director, or (ii) a member of the senior management of the Company as included in the latest annual report of the Company published on the website of the Stock Exchange immediately before the date of grant (the "Senior Grantee") who will be granted awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which awards are granted to the Senior Grantees and when the awards granted to Senior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest.

The Chairman shall have the sole and absolute right to, among others, determine the any grantee other than a Senior Grantee (the "Junior Grantee") who will be granted awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which awards are granted to Junior Grantees and when the awards granted to Junior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest. The committee comprising of any two executive Directors from time to time may (i) exercise the mandate granted by the Shareholders at general meetings of the Company and direct the Company to allot and issue Shares to the trustee to be held by the trustee to satisfy the RSUs upon vesting; and/or (ii) direct and procure the trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off market) to satisfy the RSUs upon vesting.

REPORT OF DIRECTORS

For further details of the 2020 Restricted Share Unit Scheme, please refer to the announcement of the Company dated May 15, 2020 and the circular of the Company dated May 29, 2020.

Details of the RSUs Granted under the 2020 Restricted Share Unit Scheme

The RSUs granted in respect of 4,162,633 underlying Shares (excluding the RSUs, forfeited) on September 1, 2020 have a vesting period of four years, one-forth of which will each vest on September 1, 2021, 2022, 2023, and 2024 respectively.

The RSUs granted in respect of 1,960,258 underlying Shares (excluding the RSUs, forfeited) on April 12, July 12 and September 16, 2021 have a vesting period of four years, one-forth of which will each vest on April 12, July 12 and September 16, 2022, 2023, 2024 and 2025 respectively.

Details of the RSUs granted and vested pursuant to the 2020 RSU Scheme to our Directors are set out below:

Name of Director	Date of Grant	Number of Shares underlying the RSUs Granted	Number of Shares underlying the RSUs Vested during the Year ended December 31, 2021	Vesting Period
Cheng Wu	September 1, 2020	224,144 Shares	56,036	September 1, 2021 – September 1, 2024
Hou Xiaonan	September 1, 2020	112,072 Shares	28,018	September 1, 2021 – September 1, 2024

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2021	**3,903,928**
Granted	**1,960,258**
Forfeited	**(658,220)**
Vested	**(854,330)**
Outstanding balance as of December 31, 2021	**4,351,636**

REPORT OF DIRECTORS

2021 Share Option Plan

Our Company adopted its 2021 Share Option Plan as approved by the Shareholders' resolution passed on May 24, 2021. The 2021 Share Option Plan took effect on May 24, 2021 and shall be valid and effective for a period of 10 years unless sooner terminated. For further details regarding the 2021 Share Option Plan, please refer to the circular of the Company dated April 20, 2021. Unless otherwise defined in this annual report, capitalized terms used herein shall have the meanings as defined in the circular of the Company dated April 20, 2021. Certain principal terms and details of the 2021 Share Option Plan are summarized as follows:

Purpose

The purpose of the 2021 Share Option Plan was to (i) provide incentives and rewards to the directors, employees, advisors, consultants and business partners of the Group for their contributions to, and continuing efforts to promote the interest of, the Company; (ii) recognise the contributions that the Eligible Participants have made to the Company with an opportunity to acquire a proprietary interest in the Company; (iii) encourage and retain such individuals for the continual operation and development of the Group; (iv) provide additional incentives for them to achieve performance goals; (v) attract suitable personnel for further development of the Group; (vi) motivate the participants to maximize the value of the Company for the benefits of both the Eligible Participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Eligible Participants directly to the Shareholders through ownership of Shares.

Administration

The Board shall have the sole and absolute right to, among others, interpret and construe the provisions of the 2021 Share Option Plan, determine the Senior Grantees who will be offered Options under the 2021 Share Option Plan and the Subscription Price in relation to such Options in accordance with the provisions of the 2021 Share Option Plan. The Chairman shall have the sole and absolute right to, among other things, determine the Junior Grantees who will be offered Options under the 2021 Share Option Plan and the Subscription Price in relation to such Options in accordance with the provisions of the 2021 Share Option Plan.

The Administrative Committee shall be responsible for, among other things, applying to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of Options under the 2021 Share Option Plan on the Stock Exchange and approving the draft announcement to be published by the Company in connection with the grant of Options.

Eligible Participants and Making and Acceptance of an Offer

The Eligible Participants for the 2021 Share Option Plan include (i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group; and (ii) any individual or entity that is either (a) a Business Partner, (b) a consultant, adviser or agent of any member of the Group, any Invested Entity or any Business Partner or (c) an employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any Invested Entity or any Business Partner, who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group or any Invested Entity.

REPORT OF DIRECTORS

The Board (in the case of Senior Grantees) or the Chairman (in the case of Junior Grantees) shall be entitled at any time during the operation of the 2021 Share Option Plan, at its/his/her sole and absolute discretion, to make an offer of Options to an Eligible Participant by letter in such form as the Board or the Chairman (as the case may be) may from time to time determine. An amount of RMB1.00 is payable by the Grantee to the Company upon acceptance of the offer of Options within three (3) days after such acceptance or other time as prescribed by the Company, and such remittance shall not be refundable and shall not be deemed to be a part payment of the Subscription Price.

Maximum Number of Shares Available for Subscription

(A) Scheme Limit

A total of 25,470,141 Shares may be granted under the 2021 Share Option Plan, representing 2.5% of the issued share capital as at the date of the adoption of the 2021 Share Option Plan (the "Scheme Limit") and 2.5% of the issued share capital as at the date of the date of this annual report unless otherwise permitted by the Listing Rules or the Company obtains the approval of the Shareholders to refresh the Scheme Limit.

(B) Refreshment of Scheme Limit

The Company may seek the approval of the Shareholders in general meeting to refresh the Scheme Limit such that the total number of Shares which may be issued upon exercise of all Options that may be granted under the 2021 Share Option Plan and any other option scheme/plan involving the issue or grant of options over Shares or other securities by the Company under the limit as refreshed shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshed limit.

The Company may seek the approval of the Shareholders in general meeting to grant Options which will result in the number of Shares in respect of all the Options granted under the 2021 Share Option Plan and all the options granted under any other option scheme exceeding 10% of the issued share capital of the Company, provided that such Options are granted only to participants specifically identified by the Company before the approval of the Shareholders is sought.

(C) Maximum number of Shares issued pursuant to Options

The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the 2021 Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

(D) Maximum entitlement of each Eligible Participant

No Option may be granted to any Eligible Participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the Options already granted or to be granted to such Eligible Participant under the 2021 Share Option Plan (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the Grant Date of such new grant exceeding 1% in aggregate of the issued share capital of the Company as at the Grant Date of such new grant. Any grant of further Options above this limit shall be subject to the requirements provided under the Listing Rules.

Option Terms and Exercise of Options

(A) Subscription Price

The Subscription Price shall be a price determined by the Board or the Chairman (as the case may be) and notified to any Grantee and will be the highest of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotation sheet on the Grant Date of the relevant Options, which must be a Business Day;

(b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheet for the five (5) Business Days immediately preceding the Grant Date of the relevant Options; and

(c) the nominal value per Share on the Grant Date.

(B) Vesting schedule and exercise period

The Board or the Chairman (as the case may be) may specify the exercise period and the vesting schedule of the Options in the grant letter. Unless the Options have been withdrawn and cancelled or been forfeited in whole or in part, the Grantee may exercise his rights under the 2021 Share Option Plan according to the vesting schedule set out in the relevant Grant Letter. The Option must be exercised no more than 10 years from the Grant Date. There is no minimum period for which an Option must be held before it can be exercised.

Details of the Options Granted under the 2021 Share Option Plan

As at December 31, 2021, there were a total of 1,268,750 outstanding Options granted to directors of the Company, details of which are as follows:

		Number of Options					
Name of Director	Date of grant	As at January 1, 2021	Granted during the year	Exercised during the year	As at December 31, 2021	Subscription Price (exercise price) HKD	Exercise period
Cheng Wu	July 12, 2021	–	2,900,000 (Note 2)	–	2,900,000	82.85	July 12, 2021 – July 12, 2031 (Note 1)
Hou Xiaonan	July 12, 2021	–	2,175,000 (Note 2)	–	2,175,000	82.85	July 12, 2021 – July 12, 2031 (Note 1)
Total:		–	5,075,000	–	5,075,000		

Notes:

1. For Options granted with exercisable date determined based on the grant date of Options, the first 25% of the total Options shall be vested and can be exercised after the grant date, and each 25% of the total Options will be vested and become exercisable in each subsequent year.

2. The closing price immediately before the date on which the Options were granted on July 12, 2021 was HKD80.65 per share.

3. No Options were exercised, cancelled or lapsed during the year.

REPORT OF DIRECTORS

Details of movements of outstanding Options granted to employees of the Group (apart from director(s) of the Company) who are independent third parties of the Company during the year ended December 31, 2021 are as follows:

	Number of Options					
Date of grant	As at January 1, 2021	Granted during the year	Exercised during the year	As at December 31, 2021	Subscription Price (exercise price) HKD	Exercise period
July 12, 2021	–	949,914 (Note 2)	–	949,914	82.85	July 12, 2022 – July 12, 2032 (Note 1)
November 5, 2021	–	1,786,539 (Note 3)	–	1,786,539	53.14	November 5, 2022 – November 5, 2032 (Note 1)
	–	2,736,453	–	2,736,453		

Notes:

1. For Options granted with exercisable date determined based on the grant date of Options, the first 25% of the total Options shall be vested and can be exercised one year after the grant date, and each 25% of the total Options will be vested and become exercisable in each subsequent year.

2. The closing price immediately before the date on which the Options were granted on July 12, 2021 was HKD80.65 per share.

3. The closing price immediately before the date on which the Options were granted on November 5, 2021 was HKD53.25 per share.

4. No options were exercised, cancelled or lapsed during the year.

Movements in the number of Options outstanding are as follows:

	Number of Options
As of January 1, 2021	**–**
Granted	**7,811,453**
Cancelled	**–**
Lapsed	**–**
Outstanding balance as of December 31, 2021	**7,811,453**
Exercisable as of December 31, 2021	**1,268,750**

The total number of Options available for grant under the 2021 Share Option Plan is 17,658,688, which represents approximately 1.73% of the issued shares of the Company as at the date of this annual report.

Value of the Options

Details of the valuation of Options during the year ended December 31, 2021 are disclosed in Note 34 to the consolidated financial statements.

Equity-Linked Agreements

Other than the RSU Plan, the 2020 Restricted Share Unit Scheme and the 2021 Share Option Plan, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year or subsisted at the end of the year.

Purchase, Sale or Redemption of Listed Securities of the Company

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

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Directors' Interest in Competing Business

None of the Directors had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the Reporting Period.

Connected Transaction and Continuing Connected Transactions

The Group has entered into the following connected transaction and continuing connected transactions during the year ended December 31, 2021:

Connected Transaction

1. **The Disposal of 39.8821% Equity Interest in Shenzhen Lanren**

   On January 15, 2021, Tianjin Yuewen Film Culture Media Co., Ltd.(天津閱文影視文化傳媒有限公司, "Tianjin Yuewen"), one of our subsidiaries, entered into the disposal agreement (the "Disposal Agreement") with Guangxi Qingse Venture Capital Co., Ltd.(廣西青瑟創業投資有限公司), a subsidiary of TME (the "TME Subsidiary")(a subsidiary of Tencent), Shenzhen Lanren Online Technology Co., Ltd.(深圳市懶人在線科技有限公司)(the "Target") and Beijing Shengdong Lanren Culture Technology Co., Ltd.(北京聲動懶人文化科技有限公司), the Other Vendors (namely, Gongqingcheng Jiayu Investment Partnership (Limited Partnership)(共青城佳昱投資合夥企業(有限合夥)) which is the management shareholding platform of the Management Shareholders, Gongqingcheng Zhengyi Investment Management Partnership (Limited Partnership)(共青城正益投資管理合夥企業(有限合夥)), Shenzhen Qianhai Tianhe Culture Industry Investment Center (Limited Partnership)(深圳前海天和文化產業投資中心(有

REPORT OF DIRECTORS

限合夥)), Fuhui Growth (Tianjin) Asset Management Center (Limited Partnership)(孚惠成長(天津)資產管理中心(有限合夥)), Shenzhen Times Tianhe Culture Industry Investment Center (Limited Partnership)(深圳時代天和文化產業投資中心(有限合夥)), Shenzhen Lingrui Cornerstone Equity Investment Fund Partnership (Limited Partnership)(深圳市領瑞基石股權投資基金合夥(有限合夥)), and Three Thousand World (Kunshan) Cultural Industry Investment Partnership (Limited Partnership)(三千世界(昆山)文化產業投資合夥企業(有限合夥)), Mr. Song Bin and Mr. Huang Liu (together with Mr. Song Bin, the "Management Shareholders"), pursuant to which Tianjin Yuewen and the Other Vendors agreed to sell 39.8821% and 60.1179% of the equity interest of the Target, respectively, and TME Subsidiary has conditionally agreed to acquire 100% equity interest of the Target at the aggregate consideration of RMB2.7 billion (including certain post-transaction equity settled awards to the Management Shareholders), of which RMB1,076,817,407 is payable to Tianjin Yuewen in cash. The transactions contemplated under the Disposal Agreement are inter-conditional upon each other. For further details of the disposal, please refer to the announcement of the Company dated January 15, 2021.

Non-exempt Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions (the "Continuing Connected Transactions") for the Company for the year ended December 31, 2021.

2. Promotion Cooperation Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a promotion cooperation framework agreement (the "Promotion Cooperation Framework Agreement") with Tencent Computer, a subsidiary of Tencent and thus a connected person of the Company, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall promote the Group's products or services on platforms of the Retained Tencent Group or third parties which are recognized by both parties. The means of the promotion services shall include, but not limited to provision of promotion services, provision of links to products, content or services of the Group, distribution of red packets(紅包), and optimization of search results. In return for the promotion services, the Group shall pay promotion services fees. The payment and settlements for the promotion service provided by the Retained Tencent Group should be calculated on (i) fixed amount of service fee; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The term of the Promotion Cooperation Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022. For further details of the Promotion Cooperation Framework Agreement, please refer to the announcements of the Company dated September 27, 2019.

The annual cap for the year ended December 31, 2021 is RMB250.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB149.7 million.

3. Payment Services Cooperation Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a payment services cooperation framework agreement (the "Payment Services Cooperation Framework Agreement") with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide the Group with payment services through its payment channels so as to enable the Group's users to conduct online transactions. In return for the payment services, the Group shall pay certain payment services commissions. The precise scope of service, commission fee rates, cooperation platform and settlement terms shall be agreed separately between the relevant parties in implementation agreements. The term of the Payment Services Cooperation Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022.

On April 27, 2020, the Board resolved to revise the annual caps under the 2020 Payment Services Cooperation Framework Agreement by entering into a 2020 amended and restated payment services cooperation framework agreement. For further details of the Payment Services Cooperation Framework Agreement, please refer to the announcements of the Company dated September 27, 2019 and April 27, 2020.

The annual cap for the year ended December 31, 2021 is RMB55.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB24.7 million.

4. Cloud Services and Technical Services Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a cloud services and technical services framework agreement (the "Cloud Services and Technical Services Framework Agreement") with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide cloud services and other technical services to the Group for service fees. Cloud services and other technical services shall include: cloud services, technology and engineering group services and VIP domain name resolution service. In return for the cloud services and other technical services, the Group shall pay services fees. The precise scope of service, payment and settlement terms shall be agreed separately between the parties in implementation agreements. The term of the Cloud Services and Technical Services Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022. For further details of the Cloud Services and Technical Services Framework Agreement, please refer to the announcement of the Company dated September 27, 2019.

The annual cap for the year ended December 31, 2021 is RMB98.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB64.0 million.

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5. Online Platform Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an online platform cooperation framework agreement (the "Online Platform Cooperation Framework Agreement") in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through our self-operated channels on the Retained Tencent Group platforms. The Retained Tencent Group shall provide the end users of the Retained Tencent Group platforms with access to the Group's authorized literary works so that they can preview the literary works or enjoy free or paid online reading services. The Group shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute the literary works of the Group through other channels. The Group shall have access to the data of back-end technology platforms of the relevant Retained Tencent Group platforms. In return, the Group shall share its revenue with the Retained Tencent Group for revenue of literary works generated through online platform cooperation. In respect of audio works operated by the Group, the Retained Tencent Group shall provide the end users of the Retained Tencent Group platforms (such Retained Tencent Group Platforms through which the Group distributes its audio works are authorized by the Retained Tencent Group to be self-operated by the Group) with access to the Group's audio works so that they can enjoy free or paid online listening services. The Group shall determine the operation and pricing strategies relating to the audio works. The Retained Tencent Group shall provide all necessary assistance. The Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group. In return, the Group shall pay distribution fees to the Retained Tencent Group.

The term of the Online Platform Cooperation Framework Agreement shall commence on May 17, 2019, being the date of the Shareholders approving the Online Platform Cooperation Framework Agreement, and expire on December 31, 2021. As the Online Platform Cooperation Framework Agreement expired on December 31, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Online Platform Cooperation Framework Agreement for a further term of three years (from January 1, 2022 to December 31, 2024). For further details of the Online Platform Cooperation Framework Agreement, please refer to the announcements of the Company dated March 18, 2019 and August 16, 2021 and the circulars of the Company dated April 9, 2019 and November 5, 2021.

(i) Annual caps in respect of literary works

We consider that it would be unsuitable to adopt monetary annual caps for the Online Platform Cooperation CCTs in relation to the literary works contemplated in the Online Platform Cooperation Framework Agreement. Therefore, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of setting monetary annual caps under Rule 14A.53(1) for the Online Platform Cooperation CCTs contemplated under the Online Platform Cooperation Framework Agreement. Please refer to the announcement of the Company dated March 18, 2019 for details on the wavier granted and further details of the Online Platform Cooperation CCTs.

The revenue arising out of the Online Platform Cooperation CCTs shall be split between the relevant parties and shall be determined in accordance with the following formula:

Net Proceeds of the Literary Work x prescribed revenue sharing percentage

Net Proceeds of the Literary Works (defined as below) shall refer to the aggregate net amount of deposits received from the users of the Retained Tencent Group Platforms that access the Group's literary works and the revenue of the advertisement generated from traffic attributable to these users after deduction of the platform commissions and certain operating expenses incurred for operation of and distribution by the Retained Tencent Group Platforms. The platform commission and operating expenses deducted represent the relevant proportion of expenses as charged by third party platforms (e.g. Apple and Android) when the users add value to their accounts using these platforms. These expenses represent a standard amount charged in respect of each third party platform. The amount to be shared by the Retained Tencent Group for each of the underlying cooperation under the Online Platform Cooperation Framework Agreement shall not exceed the Net Proceeds of the literary works received pursuant to the relevant cooperation in the distribution of the Group's literary works through the self-operated channels of the Group on Tencent platforms (the "Net Proceeds of the Literary Works") x 30%.

The prescribed revenue sharing percentage will depend on the Retained Tencent Group Platform through which the literary works is distributed and shall be determined after arm's length negotiation between the relevant parties and will in any event not exceed 30%.

For the year ended December 31, 2021, Net Proceeds of the Literary Work is RMB712.3 million. Seven transactions had been conducted with platforms including *Mobile QQ, QQ Browser, Tencent News, Weixin Reading, Tencent Comics, Tencent Sports* and *Tencent Video* under the Online Platform Cooperation Framework Agreement with the average revenue sharing percentage of 19.4%. The actual transaction amount of the Online Platform Cooperation CCTs is approximately RMB138.4 million for the year ended December 31, 2021.

As disclosed above, there are no annual caps under the Online Platform Cooperation Framework Agreement expressed in monetary terms, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB138.4 million.

(ii) Annual caps in respect of audio works operated by the Group

The distribution fees payable by the Group to the Retained Tencent Group in respect of the distribution of the audio works which are operated by the Group on the Retained Tencent Group's platform under the Online Platform Cooperation Framework Agreement for the year ended December 31, 2021 shall not exceed RMB18.5 million, while the actual amount for the year ended December 31, 2021 is RMB0.0 million.

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6. IP Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an IP cooperation framework agreement (the "IP Cooperation Framework Agreement") in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the products (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works. Forms of cooperation under the IP Cooperation Framework Agreement include adaptation by the Retained Tencent Group of our literary works into movies, television series, games, audio works, animations or comics, and licensing by us of the information network transmission rights of works (including but not limited to audio and comics works) and/or the derivative rights of the intellectual property of these works to the Retained Tencent Group. The relevant parties agree on the following fee terms pursuant to IP Cooperation Framework Agreement: (a) fixed payment from the licensee to the licensor; (b) revenue/profit sharing between the parties; and (c) a mix of the foregoing two commercial arrangements.

On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) further agreed to revise the annual caps under the IP Cooperation Framework Agreement.

The term of the IP Cooperation Framework Agreement shall commence on November 22, 2019 and expire on December 31, 2021. As the IP Cooperation Framework Agreement expired on December 31, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the IP Cooperation Framework Agreement for further term (from December 9, 2021 to December 31, 2023). For further details of the IP Cooperation Framework Agreement, please refer to the announcements of the Company March 18, 2019, September 27, 2019 and August 16, 2021 and the circulars of the Company dated April 9, 2019 and November 5, 2021.

The annual cap for the revenue of fees payable by the Retained Tencent Group to the Group under the IP Cooperation Framework Agreement for the year ended December 31, 2021 is RMB1,211.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB973.5 million.

7. Advertisement Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) entered into an advertisement cooperation framework agreement (the "Advertisement Cooperation Framework Agreement") with Tencent Computer (on behalf of the Retained Tencent Group) in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the self-owned platforms and self-operated channels on Tencent products. The Retained Tencent Group shall share its revenue with the Group for revenue generated under the Advertisement Cooperation Framework Agreement. Payment and settlement terms under the Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Advertisement Cooperation Framework Agreement.

The term of the Advertisement Cooperation Framework Agreement shall commence on May 17, 2019 and expire on December 31, 2021. As the Advertisement Cooperation Framework Agreement expired on December 31, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Advertisement Cooperation Framework Agreement for a further term of three years (from January 1, 2022 to December 31, 2024). For further details of the Advertisement Cooperation Framework Agreement, please refer to the announcements of the Company dated March 18, 2019 and August 16, 2021 and the circulars of the Company dated April 9, 2019 and November 5, 2021.

The annual cap for the aggregate amount of the revenue generated under the Advertisement Cooperation Framework Agreement for the year ended December 31, 2021 is RMB905.5 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB701.3 million.

8. Novel Creation and Solicitation Cooperation Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a novel creation and solicitation cooperation agreement (the "Novel Creation and Solicitation Cooperation Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall cooperate with the Group on the following matters (i) the Group shall create novels in accordance with the requirements provided by the Retained Tencent Group; (ii) the Group shall organize novel writing competitions with or on behalf of the Retained Tencent Group, or (iii) other arrangements similar to the above cooperations. In return for the novel creation or solicitation, the Retained Tencent Group shall pay commissions in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee, (ii) revenue/profit sharing, or (iii) the mixture of (i) and (ii). Payment and settlement terms under the Novel Creation and Solicitation Cooperation Agreement shall be specified in each of the implementation agreements under the Novel Creation and Solicitation Cooperation Agreement.

The term of the Novel Creation and Solicitation Cooperation Agreement shall commence on August 11, 2020 and expire on December 31, 2022. For further details of the Novel Creation and Solicitation Cooperation Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap for the year ended December 31, 2021 is RMB80.0 million, while the actual transaction amount for the year ended December 31, 2021 is RMB25.4 million.

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9. Game Cooperation Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a game cooperation agreement (the "Game Cooperation Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which (i) the Group shall license games, which are legally owned by or licensed to it, to the Retained Tencent Group for operations; and (ii) the Retained Tencent Group shall license games, which are legally owned by or licensed to it, to the Group for operations. In return for the operation of the Group's or the Retained Tencent Group's games, the Retained Tencent Group or the Group shall pay fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fees; (ii) revenue/profit sharing; or (iii) the mixture of (i) and (ii). The term of the Game Cooperation Agreement shall commence on January 1, 2021 and expire on December 31, 2023.

On August 16, 2021, the Board resolved to revise the annual caps under the Game Cooperation Agreement. For further details of the Game Cooperation Agreement, please refer to the announcements of the Company dated March 20, 2018, August 11, 2020 and August 16, 2021.

The annual cap of (i) the distribution fee payable and/or revenue to be shared by the Group to the Retained Tencent Group for the year ended December 31, 2021 is RMB90.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB58.1 million; and (ii) the distribution fee payable and/or revenue to be shared by the Retained Tencent Group to the Group for the year ended December 31, 2021 is RMB1.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB0.1 million.

10. Virtual Services Purchase Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a virtual services purchase agreement (the "Virtual Services Purchase Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall purchase virtual services of the Group (including but not limited to book coupons, monthly subscription cards and VIP cards). In return for the virtual services, the Retained Tencent Group shall pay services fees to the Group. The term of the Virtual Services Purchase Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Virtual Services Purchase Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap for the year ended December 31, 2021 is RMB50.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB0.8 million.

11. Joint Investment Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a joint investment agreement (the "Joint Investment Agreement") with Tencent Computer (on behalf of the retained Tencent Group), pursuant to which, the Group shall cooperate with the Retained Tencent Group in the joint arrangements including but not limited to: (i) making joint investments in the production of the films and television series; (ii) making joint investments in the research and development of games, animations, comics and other products; and (iii) forming joint ventures or other joint arrangements (whether as a partnership, a company or in any other form) for the purpose of the above joint investments. The term of the Joint Investment Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Joint Investment Agreement, please refer to the announcement of the Company dated March 20, 2018 and August 11, 2020.

The annual cap for the year ended December 31, 2021 is RMB700.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB466.1 million.

12. Comprehensive Cooperation Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a comprehensive cooperation agreement (the "Comprehensive Cooperation Agreement") with Sogou Technology (on behalf of the Sogou Group, a connected person), pursuant to which, the Sogou Group shall cooperate with the Group on the matters including but not limited to: (i) content cooperation: the Group shall license the information network transmission rights of the works (including but not limited to the literary works and audio works) to the Sogou Group; and (ii) game cooperation: the Sogou Group shall license games to the Group for operations. In return for the comprehensive cooperation, the Sogou Group shall pay licensing fees and/or distribution fees in one or more of the following manners, depending on the form of cooperation agreed between the relevant parties: (i) fixed amount of licensing fees/distribution fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). The term of the Comprehensive Cooperation Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Comprehensive Cooperation Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap of the aggregate amounts of the fees payable by the Sogou Group to the Group for the year ended December 31, 2021 is RMB50.5 million, while the actual transaction amount for the year ended December 31, 2021 is RMB6.1 million.

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13. Distribution Framework Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a distribution framework agreement (the "Distribution Framework Agreement"), pursuant to which the Group shall license the transmission rights (including but not limited to the information network transmission right, the broadcast right and the projection right) and the derivative rights of the film and television contents (including but not limited to the films, television series, and animations) which are legally owned by it, to the Retained Tencent Group. The Retained Tencent Group shall pay licensing fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fees; (ii) revenue/profit sharing; or (iii) a mix of (i) and (ii). The term of the Distribution Framework Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Distribution Framework Agreement, please refer to the announcement of the Company dated August 11, 2020 and the circular of the Company dated November 10, 2020.

The annual cap for the year ended December 31, 2021 is RMB1,550.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB212.7 million.

14. Media Production Consignment Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a media production consignment agreement (the "Media Production Consignment Agreement"), pursuant to which the Retained Tencent Group shall cooperate with the Group on: (i) production: the Group shall film and produce the film and television contents, including but not limited to the films, television series, and animations for the Retained Tencent Group, and/or (ii) distribution: the Group shall distribute the film and television contents, including but not limited to the films, television series, and animations for the Retained Tencent Group. In return for the production and distribution, the Retained Tencent Group shall pay production fees and distribution fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee; (ii) revenue/profit sharing; or (iii) a mix of (i) and (ii).

The term of the Media Production Consignment Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Media Production Consignment Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap for the year ended December 31, 2021 is RMB220.0 million, while the actual transaction amount for the year ended December 31, 2021 is RMB19.8 million.

15. Copyright License Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a Copyright License Agreement (the "Copyright License Agreement") in relation to the purchase of the adaptation rights and transmission rights of various works (including but not limited to games, literary works and comics) from the Retained Tencent Group. The Retained Tencent Group shall license the copyrights to the Group including but not limited to: (i) the adaptation rights of various work (including but not limited to games, literary works and comics) and the Group shall have the right to adapt such works to the comics, animations, films, television series and other products, and (ii) the transmission rights, including but not limited to (a) the information network transmission right of literary works, audio works, comics, and (b) the information network transmission right, the projection right and the broadcast right of the animations, films and television series. The relevant parties agree on the following fee terms pursuant to Copyright License Agreement: (i) fixed fee; (ii) revenue/profit sharing; or (iii) the mixture of (i) and (ii). The term of the Copyright License Agreement shall commence on August 11, 2020 and expire on December 31, 2022. For further details of the Copyright License Cooperation Framework Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap for the year ended December 31, 2021 is RMB80.0 million, while the actual transaction amount for the year ended December 31, 2021 is approximately RMB80.0 million.

Annual Review by the Independent Non-executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Continuing Connected Transactions outlined above, and confirmed that such Continuing Connected Transactions had been entered into:

(a) in the ordinary and usual course of business of our Group;

(b) on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 44 to 54 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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The Auditor of the Company has performed agreed-upon procedures regarding the continuing connected transactions entered into by the Group during the year ended December 31, 2021 as set out above and states that:

(a) nothing has come to its attention that causes it to believe that the disclosed Continuing Connected Transactions have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) nothing has come to its attention that causes it to believe that such Continuing Connected Transactions have exceeded the annual caps as set by the Company.

Certain related party transactions as disclosed in Note 38 to the consolidated financial statements constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended December 31, 2021, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

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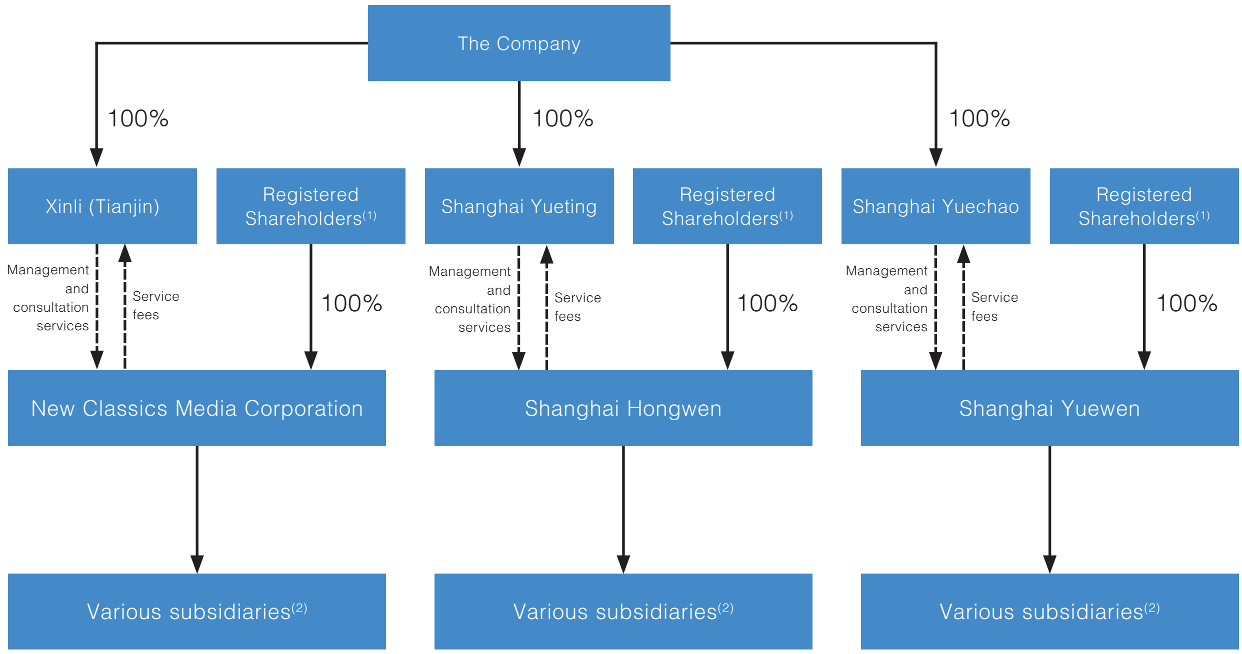
Contractual Arrangements

Our Company has entered into a series of Contractual Arrangements with the WFOEs and the PRC Holdcos, pursuant to which our Company obtained effective control over, and received all the economic benefits generated by, the businesses operated by (i) Shanghai Hongwen, Shanghai Yuewen and their respective subsidiaries (the "Wen VIE"); and (ii) New Classics Media Corporation (the "NCM VIE"). Accordingly, through the Contractual Arrangements, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



"→" denotes direct legal and beneficial ownership in the equity interest.

"- →" denotes contractual relationship.

"- - -" denotes the control by WFOE(s) over the Registered Shareholders and the PRC Holdco(s) through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdco(s), (2) exclusive options to acquire all or part of the equity interests in the PRC Holdco(s) and (3) equity pledges over the equity interests in the PRC Holdco(s).

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Notes:

(1) In the case of the Wen VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao. Litong and Ningbo Meishan Yuebao hold 65.38% and 34.62% of the equity interests, respectively, in each of the PRC Holdcos. Litong is owned by Ms. Chen Fei (陳菲) as to 25%, Mr. Zhu Jinsong (朱勁松) as to 25%, Ms. Hu Min (胡敏) as to 25%, and Ms. Li Huimin (李慧敏) as to 25%, while Ningbo Meishan Yuebao is owned by Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Mr. Luo Li (羅立) as to 2.69%. In the case of the NCM VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, holding 40.0%, 6.7%, 34.0%, 15.3% and 4.1% of the equity interests, respectively in the PRC Holdco.

(2) These include certain investment vehicles which do not currently carry out any business operations but are intended for potential investment in businesses which are subject to foreign investment restrictions in accordance with the Catalog.

A brief description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the PRC Holdcos is set out as follows:

(a) Exclusive Business Cooperation Agreements

Each of the PRC Holder(s) entered into the Exclusive Business Cooperation Agreements with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their exclusive provider of technical support, consultation and other services, including the use of any relevant software legally owned by the WFOE(s); development, maintenance and updating of software in respect of the PRC Holdco(s)'(s) business; design, installation, daily management, maintenance and updating of network systems, hardware and database design; providing technical support and staff training services to relevant employees of the PRC Holdco(s); providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under PRC laws); providing business management consultation; providing marketing and promotional services; providing customer order management and customer services; transfer, leasing and disposal of equipment or properties; and other relevant services requested by the PRC Holdco(s) from time to time to the extent permitted under PRC laws. Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions and subject to any necessary adjustment by the WFOEs of the scope and amount of service fees according to the PRC tax laws and practices.

(b) Exclusive Option Agreements

Under the Exclusive Option Agreements entered into among the WFOE(s) and the PRC Holder(s), and the Contractual Arrangements Date, the WFOE(s) have thus the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred). The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the PRC Holdco(s) have been transferred to the WFOE(s) or their/its appointee(s).

REPORT OF DIRECTORS

(c) Equity Pledge Agreements

Under the Equity Pledge Agreements entered into between the WFOE(s), the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdco(s) that they own, including any interest or dividend paid for the Shares, to the WFOE(s) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the PRC Holdco(s) takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully paid.

(d) Powers of Attorney

The Registered Shareholders executed Powers of Attorney on the Contractual Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) and their/its designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdco(s). The Powers of Attorney shall remain effective for so long as each Registered Shareholder holds equity interest in the PRC Holdco(s).

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our PRC Holdco(s) and/or Consolidated Affiliated Entities during the year ended December 31, 2021. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2021.

For the year ended December 31, 2021, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2021, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries amounted to RMB8,096 million for the year ended December 31, 2021, representing an increase by 1.8% from RMB7,955 million for the year ended December 31, 2020. For the year ended December 31, 2021, the revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries accounted for approximately 93.4% of the revenue for the year of our Group (2020: 93.3%).

REPORT OF DIRECTORS

Reasons for Adopting the Contractual Arrangements

Pursuant to the Special Administrative Measures (Negative List) of Foreign Investment Access (2021 Revision) (外商投資准入特別管理措施(負面清單)(2021年版)), foreign investments in the businesses of (i) production and operation of broadcasting and television programmes (including bringing-in of such programmes), film making, film distribution, film bringing-in and theatre are prohibited; (ii) Internet publication, provision of audio-visual program services to the public, and online games are prohibited; and (iii) internet information services are restricted. Since foreign investment in such business areas in which we currently operate are subject to restrictions or prohibitions under the current applicable PRC laws and regulations, as advised by our PRC legal advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. For details of the foreign investment restrictions or prohibitions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements – Qualification Requirements under the FITE Regulations" and "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment" on pages 195 to 197 and pages 210 to 215 of the Prospectus and on page 63 to 68 of the circular of the Company dated September 28, 2018 (the "Circular").

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, and that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interest of our Group and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and New Intergroup Agreements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders' approval requirements.

Risks Relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government finds that the agreements that establish the structure for operating the businesses in China do not comply with the applicable PRC laws and regulations, or if there are regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Holdcos or their shareholders may fail to perform their obligations under our Contractual Arrangements.

REPORT OF DIRECTORS

- We may lose the ability to use and enjoy assets held by our PRC Holdcos that are material to our business operations if our PRC Holdcos declare bankruptcy or become subject to a dissolution or liquidation proceeding.

- The ultimate shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.

- If we exercise the option to acquire equity ownership and assets of our PRC Holdcos, the ownership or asset transfer may subject us to certain limitations and substantial costs.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of the investment of our Shareholders.

Further details of these risks are set out in the section headed "Risk Factors – Risks relating to Our Contractual Arrangements" on pages 60 to 66 of the Prospectus.

Our Group has adopted measures to ensure the effective operation of our Group's businesses with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements, including:

(a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year; and

(c) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

REPORT OF DIRECTORS

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as four of the parties to the Contractual Arrangements, namely Litong, Ningbo Meishan Yuebao, Linzhi Tencent and Shiji Kaixuan, are connected persons. Litong, Linzhi Tencent and Shiji Kaixuan are accounted as subsidiaries of Tencent, and are therefore associates of Tencent. Ningbo Meishan Yuebao is owned as to 83.88% by Mr. Wu Wenhui, one of our former directors, and is therefore an associate of Mr. Wu Wenhui.

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (i) in the case of Wen VIE only, the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to, among others, the following conditions:

(a) no change without independent non-executive Directors' approval;

(b) no change without independent Shareholders' approval;

(c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

(d) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

For further details of the waivers granted by the Stock Exchange, please refer to the Prospectus and the announcement of the Company dated September 24, 2018 and March 18, 2019.

REPORT OF DIRECTORS

Annual Review by the Independent Non-Executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(a) the transactions carried out during the year ended December 31, 2021 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(b) no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group; and

(c) the terms of any new contracts that had been entered into, renewed and/or reproduced between our Group and the Consolidated Affiliated Entities during the year ended December 31, 2021 are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

Our Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2021 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group.

Donations

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB86,000.

Legal Proceedings and Compliance

To the best knowledge of the Board, no litigation or claim of material importance is pending or threatened against any member of the Group.

Compliance

The PRC government regulates the Internet industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the Internet industry. A number of regulatory authorities, such as the Ministry of Commerce, or MOFCOM, the Ministry of Culture and Tourism, or MOCT, the Ministry of Industry and Information Technology, or MIIT, National Radio and Television Administration, or NRTA and the Cyberspace Administration of China, or CAC, oversee different aspects of the Internet industry. These governmental authorities together promulgate and enforce laws and regulations that cover many aspects of the telecommunications, Internet information services, Internet publishing industries and online audio-visual products services, including entry into such industries, scope of permitted business activities, licenses and permits for various business activities and foreign investments into such industries.

REPORT OF DIRECTORS

Change of the PRC regulatory environment may have adverse impact on our business operation. In particular, substantial uncertainties exist with respect to the Foreign Investment Law, which was adopted at the Second Session of the 13th National People's Congress on March 15, 2019 and shall come into effect as of January 1, 2020 and how the Foreign Investment Law may impact the viability of our current corporate structure, corporate governance and business operations. We are closely monitoring the status of the enactment of the Foreign Investment Law, and will take necessary steps to mitigate the risks against us, if any.

For details please refer to the relevant disclosure in the section headed "Risk Factors" in the Prospectus.

Permitted Indemnity Provision

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office. The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

Audit Committee

The Audit Committee had, together with the Auditor, reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements during the Reporting Period.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 65 to 87 of this annual report.

Sufficiency of Public Float

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as of the date of this annual report.

Closure of the Register of Members

The Company will hold the AGM on May 23, 2022. The register of members of the Company will be closed from Wednesday, May 18, 2022 to Monday, May 23, 2022, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, May 17, 2022.

REPORT OF DIRECTORS

Professional Tax Advice Recommended

If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

Auditor

There was no change in the Company's auditor in the preceding three years. PricewaterhouseCoopers was appointed as the Auditor during the Reporting Period. The accompanying financial statements prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the AGM.

Sincerely,
James Gordon Mitchell
Chairman of the Board and non-executive Director

Hong Kong, March 22, 2022

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2021 (the "Relevant Period").

The Board is committed to maintaining high standards of corporate governance and recognizes that good governance is vital for the long-term success and sustainability of the Company's business, and to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

Corporate Governance Practices

The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the Relevant Period.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities. The Company has made specific enquiries with the Directors and the Directors have confirmed they have complied with the Model Code for the Relevant Period.

The Board

As at December 31, 2021, the Board comprises nine Directors, consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. The composition of the Board ensures a balance of skills and experience appropriate for the requirements of the business of the Group and the issuance of independent opinion. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

The Directors who held office during the year and up to the date of this annual report includes:

Executive Directors:

Mr. Cheng Wu *(Chief Executive Officer)*
Mr. Hou Xiaonan *(President)*

Non-Executive Directors:

Mr. James Gordon Mitchell *(Chairman)*
Mr. Cao Huayi
Mr. Cheng Yun Ming Matthew
Mr. Zou Zhengyu *(appointed on May 24, 2021)*
Mr. Wu Wenhui *(Vice-Chairman)*
(retired on April 26, 2021)

Independent Non-Executive Directors:

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

CORPORATE GOVERNANCE REPORT

Each of the executive Director has entered into a service contract with the Company for a specific term of three years. Each of Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu, as the non-executive Directors, has entered into an appointment letter with the Company for a specific term of three years. Each of the independent non-executive Directors has entered into an appointment letter with the Company for a specific term of three years. In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment. The Board considers a candidate's experience, skill and knowledge and competency and ability to fulfil duty of care and diligence and fiduciary duty and/or recommendation by the nomination committee of the Company (if any).

In compliance with Rules 3.10 and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors (representing not less than one-third of the Board), one of whom possesses appropriate professional qualifications in accounting or related financial management expertise. Each of the three independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules.

Pursuant to the Articles of Association, (i) any Director appointed as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election; and (ii) at least one-third or, if the number is not a multiple of three, the nearest to one-third of the Directors are subject to retirement from office by rotation and re-election at the annual general meeting of the Company once every three years. Accordingly, Mr. Cheng Wu, Mr. James Gordon Mitchell, Ms. Yu Chor Woon Carol shall retire by rotation and, being eligible, will offer themselves for re-election as Directors at the AGM.

All Directors have given sufficient time and attention to the affairs of the Group and, in particular, the non-executive and independent non-executive Directors have provided the Board with their diversified expertise and professional advices. The Board is of the view that there is a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors in the Board and the independent non-executive Directors are able to provide sufficient checks and balances to safeguard the interests of the shareholders of the Company and the Group. The participation of the independent non-executive Directors in the Board and committee meetings also provides independent judgement on the issues relating to strategy, policy, performance, accountability, conflict of interest and standards of conduct.

CORPORATE GOVERNANCE REPORT

The Board members have timely access to information relating to the Group's business and will be provided with further documents and information upon request to enable them to make informed decisions. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors/Board Committee members. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors. All Directors are entitled to have access to Board papers and related materials. These papers and related materials are in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. Queries raised by the Directors are given a prompt and full response.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

As regards the code provision of the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity of the public companies or organizations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Directors' Liability Insurance and Indemnity

The Company has arranged appropriate and sufficient liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Responsibility of the Board

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance and to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to executive Directors and the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

Board Activity

The Board holds meetings regularly and meets at other times as and when required to review the Group's overall strategies, financial and operational performances, approved the annual and interim results of the Group, risk management, regulatory compliance and corporate governance, and other significant matters. In addition, the Board holds general meetings to maintain an on-going dialogue with the Shareholders.

CORPORATE GOVERNANCE REPORT

The Board held five Board meetings and passed five written resolutions in 2021. The attendance of each director at Board, committee meetings, annual general meeting and extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Board, Committee Meetings, Annual General Meeting and Extraordinary General Meeting						
Name of Director	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Strategy and Investment Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Executive Directors							
Mr. Cheng Wu	5/5	N/A	N/A	4/4	3/3	1/1	1/1
Mr. Hou Xiaonan	5/5	N/A	N/A	N/A	3/3	1/1	1/1
Non-executive Directors							
Mr. James Gordon Mitchell	5/5	N/A	2/2	0/4	3/3	1/1	1/1
Mr. Cao Huayi	5/5	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Cheng Yun Ming Matthew	5/5	2/2	N/A	N/A	N/A	1/1	1/1
Mr. Zou Zhengyu *(appointed on May 24, 2021)*	2/5	N/A	N/A	N/A	1/3	0/1	1/1
Mr. Wu Wenhui *(retired on April 26, 2021)*	3/5	N/A	N/A	N/A	2/3	1/1	0/1
Independent non-executive Directors							
Ms. Yu Chor Woon Carol	5/5	2/2	2/2	4/4	N/A	1/1	1/1
Ms. Leung Sau Ting Miranda	5/5	2/2	N/A	4/4	N/A	1/1	1/1
Mr. Liu Junmin	5/5	N/A	2/2	N/A	N/A	1/1	1/1

CORPORATE GOVERNANCE REPORT

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. The company secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. Notices of not less than fourteen days are given by the company secretary for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the relevant papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. When there is potential or actual conflict of interests involving a substantial Shareholder or a Director, such Director will declare his interest and will abstain from voting on such matters. Minutes of meetings are kept by the joint company secretary with copies circulated to all Directors or Board Committee members for information and records.

The Directors may also seek independent professional advice at the Company's expense in appropriate circumstances.

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are kept by company secretary and are available for inspection by Directors at any time.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on the latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

CORPORATE GOVERNANCE REPORT

According to the information provided by the Directors, a summary of training received by the Directors throughout the Relevant Period is as follows:

Name of Directors	**Nature of Continuous Professional Development Programmes**
Executive Directors	
Mr. Cheng Wu	A, B and C
Mr. Hou Xiaonan	A, B and C
Non-Executive Directors	
Mr. James Gordon Mitchell	A, B and C
Mr. Cao Huayi	C
Mr. Cheng Yun Ming Matthew	A and C
Mr. Zou Zhengyu *(appointed on May 24, 2021)*	C
Mr. Wu Wenhui *(retired on April 26, 2021)*	C
Independent Non-Executive Directors	
Ms. Yu Chor Woon Carol	C
Ms. Leung Sau Ting Miranda	C
Mr. Liu Junmin	C

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the Chief Executive Officer are currently two separate positions held by Mr. James Gordon Mitchell as the chairman of the Board and Mr. Cheng Wu as Chief Executive Officer, with clear distinction in responsibilities. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

Delegation by the Board

The Board reserves for its decision right for all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

1. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to formulate, review and monitor the code of conduct and compliance manual applicable to employees and Directors;
4. to formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;
5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report;
6. to review and ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting;
7. to oversee management in the design, implementation and monitoring of the risk management (including ESG risks) and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems;

8. to review the nature and extent of the Company's significant risks (including ESG risks), and to respond the changes in its business and the external environment;

9. to listen to the Company's stakeholders in a number of different ways, which the Board sets out in more details within the ESG review and use the information provided by the Company's stakeholders identify the issues that are most important to them – and consequently also matter to the Company's business; and

10. to review and monitor the Company's compliance with the Company's anti-corruption and whistle-blowing policy.

Board Committees

The Board has established four Board Committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee, to oversee the relevant aspects of the Company's affairs. The four Board Committees are provided with sufficient resources to discharge their duties. The Audit Committee, the Remuneration Committee and the Nomination Committee have its written terms of reference, which are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors namely Ms. Yu Chor Woon Carol (Chairman) and Ms. Leung Sau Ting Miranda and one non-executive Director namely Mr. Cheng Yun Ming Matthew.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive Directors, to discuss any area of concern during the audit or review.

The Audit Committee's major work during the year 2021 includes:

1. to review the 2020 annual report, the Environmental, Social and Governance Report and annual results announcement;

2. to review the 2021 interim report and interim results announcement;

3. to review compliance with the CG Code, the Listing Rules and relevant laws;

4. to review the relationship with the Auditor by reference to the work performed by the Auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the Auditor;

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5. to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the Auditor before submission to the Board; and

6. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

PricewaterhouseCoopers ("PwC") is the Group's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied with this relationship. As such, the Audit Committee has recommended their re-appointment at the forthcoming AGM.

Code provision C3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e)(i) of the CG Code during the Relevant Period.

Terms of Reference of the Audit Committee was revised on December 3, 2018 according to the revision of the CG Code which took into effect from January 1, 2019.

The Audit Committee held two meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

Nomination Committee

The Nomination Committee currently comprises three members, including one non-executive Director namely Mr. James Gordon Mitchell (Chairman) and two independent non-executive Directors namely Ms. Yu Chor Woon Carol and Mr. Liu Junmin.

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee's major work during the year 2021 includes:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

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3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive; and

5. to review the Board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the board diversity policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Board has also implemented the nomination policy in relation to reviewing and assessing the Board composition, the Nomination Committee considers a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience. The Nomination Committee is satisfied that the board diversity policy and nomination policy are successfully implemented. The Nomination Committee held two meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

The Nomination Committee will continue to monitor the implementation of two policies and will review periodically to ensure its continued effectiveness.

Board Diversity Policy

The Board has adopted a Board Diversity Policy in relation to the nomination and appointment of new Directors, which provides that the selection of Board candidates shall be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience, with reference to the Company's business model and specific needs. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

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Nomination Policy

The Board has adopted the Nomination Policy which aims to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirement of the Company's businesses. Pursuant to the Nomination Policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- Reputation for integrity;
- Accomplishment and experience in the relevant industries in which the Company's business is involved and other professional qualifications;
- Willingness to devote adequate time to discharge duties as a member of the Board; and
- Diversity in aspects including but not limited to gender, age, cultural and educational background, professional experience, perspectives, skills, knowledge and length of services.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee identifies individuals suitably qualified to become Board members, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Directors as appropriate. The Nomination Committee makes recommendations to the Board. The Board considers the individuals recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and confirms the appointment of the individuals as Directors or recommends the individuals to stand for election at a general meeting. Individuals appointed by the Board will be subject to election by the Shareholders at the next following AGM or the next following general meeting in the case of filling a casual vacancy in accordance with the Articles of Association. Shareholders approve the election of individuals, who stand for election at general meeting, as Directors. The Nomination Committee also considers each retiring Director, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of each retiring independent non-executive Director. The Nomination Committee makes recommendations to the Board. The Board considers each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and recommends the retiring Directors to stand for re-appointment at the AGM in accordance with the Articles of Association. Shareholders approve the re-appointment of Directors at the AGM. The Board shall have the ultimate responsibility for all matters relating to selection and appointment of Directors. The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review it, as appropriate, to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

Terms of Reference of the Nomination Committee was revised on March 18, 2019 according to the revision of the CG Code which took into effect from January 1, 2019.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Ms. Leung Sau Ting Miranda (Chairwoman) and Ms. Yu Chor Woon Carol and one non-executive Director namely Mr. James Gordon Mitchell.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive Directors and senior management; and (iii) the remuneration of non-executive Directors.

The Remuneration Committee's major work during the year 2021 includes:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board from time to time;

3. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

In conducting its work in relation to the remuneration of Directors and senior management team, the Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. The Remuneration Committee held four meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

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Strategy and Investment Committee

The Strategy and Investment Committee comprises four members, including two executive Directors namely Mr. Cheng Wu (Chairman) and Mr. Hou Xiaonan, and two non-executive Directors namely Mr. James Gordon Mitchell and Mr. Zou Zhengyu.

The principal duties of the Strategy and Investment Committee are to review the execution of business plans and performance indicators of the Group and to review and advice on budget proposals. The Strategy and Investment Committee held three meeting during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

Remuneration of Directors and Senior Management

Please refer to Note 8 to the consolidated financial statements for details of remuneration of members of the Board for the year ended December 31, 2021.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on pages 23 to 27 of this annual report, for the year ended December 31, 2021 are set out below:

Remuneration band (RMB)	**Number of individual**
0	4
1-5,000,000	5
>5,000,000	0

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2021 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 112 to 121 of this annual report.

Risk Management and Internal Control

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the effective business operation, accuracy and the reliability of the financial reporting, as well as the compliance with applicable laws, regulations and policies.

The Board acknowledges that it is their responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates its responsibilities to the Audit Committee to review the establishment and practices of management with respect to risk management and internal control systems formally on a half-yearly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. The Board is also responsible for overseeing the key risks of the Company, including determining the Company's acceptable level of risk, and proactively considering, analyzing and formulating strategies to manage the Company's significant risks. Such risks would include, amongst others, material risks relating to ESG.

Under the supervision and guidance of the Board, the Company has adopted a risk management and internal control structure, referred to as the "Three Lines of Defense" model, to ensure the effectiveness of its risk management and internal control systems.

First Line of Defense – Operation and Management

Our First Line of Defense is mainly comprised of business and functional departments of the Group. It is responsible for the day-to-day operation and management as well as responsible for the design and implementation internal control to manage the risk.

Second Line of Defense – Risk Management

Our Second Line of Defense is comprised of the risk control team of the Risk Control and Internal Audit Department of the Group. It is responsible for the formulation of policies relating to risk management and internal control of the Group, as well as the overall planning and establishment of the risk management and internal control systems of the Group. It assists the First Line of Defense to establish and improve the risk management and internal control systems through the establishment of the China Literature Internal Control Team. And by performing the supervision function, it can reasonably ensure the effective implementation of risk management and internal control tasks in the First Line of Defense.

Third Line of Defense – Independent Assurance

Our Third Line of Defense is comprised of the internal audit team of the Risk Control and Internal Audit Department of the Group (including internal audit and anti-corruption functions). Through its internal audit functions, the internal audit team is responsible for the provision of independent evaluation and verification on the effectiveness of the risk management and internal control systems of the Group to assist the Board in performing risk management duties. The Company has established policies and systems that promote and support anti-corruption laws and regulations, and the anti-corruption function is responsible for investigation work and promotional activities on anti-corruption.

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The Three Lines of Defense model of the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee oversees the management of the design, implementation and monitoring of risk management and internal control systems. The senior management team also provides all necessary and relevant data to the Board, giving the Directors sufficient explanation and information they need to discharge their responsibilities and make an informed assessment of financial and other data put before them for approval. The internal audit team of the Company has direct reporting lines to the Audit Committee.

Risk Management

The Company is committed to continuously improving its risk management system, including structure, process and culture, and its risk management ability, to ensure long-term growth and sustainable development of the Company's business.

The Company has established a risk management system which sets out the roles and responsibilities of each relevant party as well as the relevant risk management policies and processes. Various business and functional departments of the Company identify and assess on regular basis the risk factors that may negatively impact the achievement of its objectives, and formulates appropriate response measures. The Company also provides risk management and internal control training for staff on a regular basis.

The Group faces various major financial risks, including foreign exchange risk, market risk, credit risk and liquidity risk. For details of the major risks stated above and measures to lower the risks, please see note 3 "Financial Risk Management" of the consolidated financial statements for the year.

In 2021, management has identified nine significant risks through the risk management process described above. Given the uncertainty and instability of the global macroeconomic situation, as well as the impact of COVID-19, the Company identified and disclosed three new significant risks in 2021, namely "Macroeconomic Risk", "Production Making Risk" and "Human Resources Risk". In addition, as the Company's business scale, scope and complexity have evolved, so does its external environment, through the risk management process detailed above, management considers that the Company is still facing the six significant risks disclosed in 2020, namely "Regulatory and Compliance Risk", "Intellectual Property Protection Risk", "Market Competition and Innovation Risk", "Public Outbreak Risk and Crisis Management", "Merger and Acquisition and Investment Management Risk" and "Information Security Risk", among which "Macroeconomic Risk" and "Production Making Risk" have been increased while the other risks remain stable.

The Audit Committee assists the Board in supervising the overall risk status of the Company and evaluating the change in the nature and severity of the Company's major risks. The Audit Committee considers that the management of the Company has taken appropriate measures to address and manage the key risks which they are responsible for at a level acceptable to the Board.

Below is a summary of the significant risks of the Company along with the applicable response strategies. With the growth of business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

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Regulatory and Compliance Risk

Regulatory authorities in numerous jurisdictions have been developing more comprehensive and stringent new regulations to regulate the internet industry and the movie and television industry, including obtaining and maintaining necessary licenses, approvals and permits relevant to applicable business. As the Company is continuously expanding its businesses in the PRC and overseas to more countries and jurisdictions, it is required to keep up and comply with the new applicable laws and regulations in different countries and jurisdictions, including but not limited to laws regulation relating to privacy and data protection, intellectual property, labour protection, antitrust, anti-illegitimate competition, communication and network, games, advertising, foreign investment, international trade and etc. In addition, development of various industries around the world may be impacted by regulatory uncertainties in different jurisdictions and uncertainties in international relations.

The Company has set up several professional departments and teams, as well as engaged external professional consultants to work closely with management of business groups to keep track on any changes in any relevant laws and regulations, so as to take appropriate responding actions or measures, strengthen interpretation and training of updated laws and regulations internally and improve the corresponding management mechanism to ensure the Company is in compliance with applicable laws and regulations. In addition, the Company has taken practical measures with significant resources to ensure the compliance with regulatory requirements.

Intellectual Property Protection Risk

Piracy is long-standing problem in China, particularly in the content industry. Many websites and mobile apps in China attract user traffic by making pirated content available for free and derive advertising revenues from such pirated content. The cost of piracy in online literature is low and it will undermines the literature creation environment and paid reading model of the Company, negatively affects the income of the writers and the production of high-quality IP contents, also the viewership of movie and television products, and may adversely and significantly affect core competency and success of the Company.

The Company has zero tolerance for piracy and has formulated and kept optimizing control measures to reduce the risk possibility of piracy through anti-piracy technology, including content anti-fetching, identifying the UID by using "content fingerprint" technique and set up detect system to detect and track piracy web links automatically and accurately. Besides, the Company also provides an interactive platform for writers and users and increase content distribution channel. In addition, the Company has set up a number of professional departments and teams which are able to identify cases of infringement and collect evidence with other business departments of the Company in a timely manner for commencing litigation in the relevant jurisdictions on claims for the losses incurred and imposing punishment on unauthorized third parties. The Company has strengthened the cooperation with public security organ to severely crack down on pirated App. In addition, the Company has further strengthened the cooperation with National Copyright Administration and Copyright Society of China to promote the protection of digital rights.

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Macroeconomic Risk

The Company's revenue from certain businesses is closely related to the macroeconomy and the overall consumption environment. Global and regional economic uncertainties, COVID-19 epidemic spreading around the world and other factors may reduce individual users' ability to pay and willingness to consume and erode corporate customers' profits, leading to a reduction in the resources they invest in developing the market and business. The above factors may affect part of the Company's revenue. Changes in the international situation, trade and investment policies, and markets caused by the epidemic may negatively affect the Company's operation, market and business cooperation, which may subsequently affect and weaken the Company's competitiveness and potential for business development.

The Company adjusts its business strategy scientifically, flexibly and reasonably in accordance with the macroeconomic environment, responding to the uncertainties brought about by the macroeconomic environment while continuing to seek opportunities for business development. Based on online reading business, the Company also emphasizes IP incubation and development, achieves sustainable business development through the improvement of user experience as well as building longer-term and stable relationships with existing customers. In an unfavorable macroeconomic environment, including economic growth slowdown, recurrence of COVID-19 and uncertain international relations, the Company will still satisfy the needs of readers and the market through continuously enhancing the quality of literary and IP contents, in order to consistently advance the realization of the Company's strategic goals.

Market Competition and Innovation Risk

The Company faces competition in every aspect of our business, and particularly from other companies that provide online platform services for literary creation, consumption and distribution. We compete primarily with other online literature websites and mobile apps in China, with internet companies which offer internet media services, with social network service providers, with content providers that focus exclusively on a specific genre of content also featured by us, including our popular media accounts and physical book publishing companies, and with movie and television companies. The competition above may significantly increase the market price for literary content, which cause us to lose our existing or potential writers and readers, or our revenue from box office falls below expectation. Moreover, with the deep intervention of We Media in the online literature industry, as well as user's increasing for innovation in products and services, how to attract new users and maintain our market share also pose major challenges to the Company. The Company also use the advantages in content and platform to promote the incubation of high-quality literary IPs. Challenges for the Company ahead are building IP ecosystem to enhance the value of IP and reconstructing various formats of IP contents.

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The Company defends the current industry-leading position by focusing on the execution of content, platform and ecosystem to cope with competitions and challenges. The Company has also focused on the experience of writers and readers by keeping track of the development of writers in a timely manner, capturing changes of reading experience, pooling resources together to enhance the technological capabilities of products and improve the environment for technological innovations continuously, developing products to meet the expectation of market users constantly, encouraging writers to output more IPs which meet the expectations and interests of the readers and facilitating the conversion of literary IP into comics, animation, film, TV drama and games. Looking ahead, the Company will constantly focus on serial development of high-quality IP movies and TV series, explore opportunities in new areas such as web films and short dramas. The Company will strengthen the market competitiveness by increasing the value of IPs continuously and reinforce cooperation with business partners to consolidate the Company's leading position in the industry.

Public Outbreak Risk and Crisis Management

Online literature business and the movie and TV industry are highly dependent on market recognition and reputation of writers and artists. With the increasing complex business forms, if the brand name of the Company is damaged for any reason or if the Company is unable to respond to negative information effectively (for example, the image and reputation of writers, artists or cooperative partners are adversely affected), the reputation of products and the brand image of the Company may be harmed, and in turn, the business and financial conditions and operating results of the Company will be affected.

In adherence to the principles of openness and transparency, the Company has communicated with the public in a timely manner and disclosed comprehensive and proper information. In response to crisis, the Company has established the corresponding emergency response mechanism, to follow up on the progression of crisis, assess risks, make prompt decisions and adjust its businesses to reduce the impact. The Company has set up professional Government relations department and public relations department for crisis and public relations management to continuously improve its crisis management and public relations capabilities, and established a sound process of compliance assess to conduct pre-risk assessment and management for artist selection, and the agencies are also required to monitor the reputation and behavior of artist. The Company attentive and continuously collects public opinions, analyses the relevant market information to enable management timely to respond comprehensive and genuine information to the general public according to the Company's policy and procedures; and protect the Company's reputation.

Merger and Acquisition and Investment Management Risk

The Company strengthens the market competitiveness and improves profitability through acquiring or investing in other companies, and will continuously focus on antitrust policy. With the expansion of investment scale in diverse fields, it is important for the Company to adopt robust procedures in the formulation of investment strategies and strong treasury management, both at the investment evaluation stage as well as the post-investment stage. Failure to promptly manage investment risks could hinder the realization of investment strategies and lead to probable financial loss of the Company.

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The Company takes the management of investment risks seriously, and has, amongst other things, established a Strategy and Investment Committee under the Board, dedicated an investment team to identify investment opportunities, appointed finance, legal and other relevant professional teams to manage relevant risks and put in place the investment risk evaluation and approval process, conduct complete analysis. The Company would further strengthen the due diligence over the investee companies, and keep track on changes in relevant laws and regulations, and take appropriate responding actions or measures to ensure the Company is in compliance with such applicable laws and regulations in the PRC and overseas. There is also a designated professional team that regularly reviews the Company's treasury position and, continuously expands its financing channels and capabilities to meet the needs from the Company's business operations as well as acquisitions. The Company has also designated finance, legal and other relevant professional teams to support and monitor the performance of the investee companies. These teams periodically analyze and review relevant operating and financial information of the investee companies to ensure that they continue to satisfy the Company's investment strategies. In addition, the Company has invested resources in IA and IC, and to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

Information Security Risk

Supervision over Internet security and personal information protection has been strengthened in various jurisdictions. Protecting user and customer data is the top priority of the Company. The Company continues to pay attention to regulatory requirements for privacy and data protection in various jurisdictions and is fully aware that any loss or leakage of sensitive information could have a negative impact on affected users, and exposes the Company to significant legal liability and reputational risk.

The Company strongly believes that protecting user and customer data is the key prerequisite for delivering secured and high-quality products and user experience. As such, the Company is committed to protecting data privacy and security and strives to provide the highest level of protection on such information and data. In this regard, the Company strictly complies with applicable laws and regulations, and has formulated policies and control measures to protect user data. Information security is ensured through effective management systems, encryption, access restrictions and controls, and the establishment of appropriate and effective management processes, and continuously improving the business continuity and disaster recovery management. In addition, the Company performs review periodically and engages independent specialists to review the Company's data protection practices and provides training programs to employees to enhance their awareness of information security.

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Production Making Risk

The Company's manufacturing and publication of literary works and TV series may be subject to multiple influences of user, market and regulatory policy. If the manufactured products can't effectively predict and fulfil the preferences of users and the market, or are not in compliance of the regulatory policy in terms of contents and selection of topics, it may result in the manufacturing of products not proceeding as scheduled, which will further affect the sustainable development of business and the realization of the Company's strategic goals.

In terms of online literary content, the Company has established a complete and systematic system for creating, evaluating, reviewing and promoting original content for reading based on a deep understanding of reading and a wealth of internal and external resources, continuously improving the quality of its works. Attaching importance to promotion of positive values, the Company established clear regulations and requirements for the selection of topics and guidance of values for literary content and IP products, and also developed a mature content review system and review team, to ensure that the content of products complies with mainstream values. In terms of the developing and manufacturing of movies and TV series, the Company also established an evaluation and review system with multiple sectors ranging from the selection of topic, script, directors and performers to the manufacturing of Tv series, bringing more high-quality products to users and the market. At the same time, the Company also proactively deploys the development of IP products, actively promoting to transfer literary contents into IP products in multimedia formats such as comics, animations, movies and television, and games. We continue to put the mission of "creating good stories that will live forever" into practice, actively creating value for the users and fulfilling social responsibilities.

Human Resources Risk

The realization of the Company's long-term growth goals is dependent on the support of a professional management team and professional talents, which provided solid safeguards for the Company in the areas of Intellectual property operations, product development and manufacturing, technical support and innovation, and platform operations, etc.. However, as competition in the industry market intensifies, the competition between companies in regards of demand for talents continues to exist, and the demand and competition for top talent and talent in specialized areas are even more intense. How to attract and retain excellent talents is crucial to our Company's business development.

The Company continues to build its corporate culture and core values, improve its working environment, compensation package and attach importance to employee benefits, which are beneficial to the Company on recruiting the suitable professionals and attracting excellent management team to join us in the highly competitive environment for talents. The Company also continues to leverage its advantage in brand value and influence in the industry to continue enhancing the employer brand effect, so as to promote the attraction and retention of outstanding talents. Through upgrading the standards for employment, the Company also continues to refine mechanisms of internal talent cultivation, performance assessment and motivation, personnel promotion and development, and talent succession plan, etc., promoting the construction of a talent pipeline. The Company aims at building a content-loving, passionate, stable and passionate team with a high sense of responsibility and mission, to improve the organisation efficiency and jointly help achieve the realization of the Company's goals.

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Internal Control

Management of the Company is responsible for the design, implementation and maintenance of the effectiveness of internal control systems. The Board and the Audit Committee are responsible for monitoring and overseeing the performance of management over the internal control systems to ensure it is appropriate and effective.

The Company's internal control systems clearly define roles and responsibilities of each party as well as authorizations and approvals required for key actions of the Company. Policies and procedures are put in place for the key business processes. This information is also clearly conveyed to employees in practice and plays an important role in internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

Management Self-assessment

In order to further strengthen the accountability of the management team in the internal control systems of the Company and to assist in determining the effectiveness of such internal control systems, the management team of each business division conducts self-assessment and confirms the internal control status of the business division for which it is responsible. The internal audit team assists the management in preparing a self-assessment questionnaire according to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework, and guides the management of each business group to carry out the self-assessment. The internal audit team is also responsible for collecting and summarizing the results of self-assessment. The Chief Executive Officer and the President of the Company reviews this summarized self-assessment of each business division, assesses the general effectiveness of the internal control systems of the Company, and submits the written confirmation thereof on behalf of the management of the Company to the Audit Committee and the Board.

In addition, the internal audit team supervises the establishment of the risk management and internal control systems set up by the management, monitors that the management has implemented appropriate measures, assesses objectively the effectiveness of risk management and internal control systems of the Company and reports to the Audit Committee at least on an annual basis.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with various business and functional management teams, internal audit team, legal, personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Board is of the view that throughout the year ended December 31, 2021, the risk management and internal control systems of the Company are effective and adequate.

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In addition, the Board believes that the Company's accounting, internal audit, and financial reporting functions, as well as those relating to the Company's ESG performance and reporting have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

Auditor's Remuneration

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended December 31, 2021 was approximately as follows:

Type of Services	**Amount (RMB'000)**
Audit and audit related services	11,030
Non-audit services*	1,490
Total	12,520

Note:

* The amount of non-audit services comprises risk management, internal control review and tax advisory service.

Joint Company Secretaries

Ms. Xu Lan ("Ms. Xu") and Ms. Cheng Pui Yan ("Ms. Cheng") are the joint company secretary of the Company. All Directors have access to the advice and services of the joint company secretaries on board procedures and corporate governance matters as and when required. The joint company secretaries are employees of the Company and report to the chairman of the Board and chief executive officer of the Company. Ms. Xu works closely with Ms. Cheng (the primary contact person) in discharging their duties and responsibilities as joint company secretaries of the Company.

For the year ended December 31, 2021, Ms. Xu and Ms. Cheng have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGM to answer Shareholders' questions. The Auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

CORPORATE GOVERNANCE REPORT

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at http://ir.yuewen.com/, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as of the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretaries of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Block 6, No. 690 Bi Bo Road, Pudong XinQu, Shanghai, People's Republic of China (email address: ir@yuewen.com).

Memorandum and Articles of Association

During the year ended December 31, 2021, there were no significant changes in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About Us

As a comprehensive cultural industry group with digital reading as its foundation and intellectual property ("IP") cultivation and development as its core, the Group has embraced quite a few popular brands in the sector, including QQ Reading, Qidian.com, New Classics Media, etc., reaching hundreds of millions of users. A large number of quality online literature IPs have been produced through the platform and then adapted into animations, films and TV dramas, games and other commercial products.

We continue to offer authors with diversified original platforms, open up extensive distribution channels for content and create exquisite multi-derivatives in the downstream to provide users with a variety of spiritual and cultural products. We have built a cultural and creative ecology driven dually by online business and IP operation.

Vision And Mission

In 2021, we announced our brand-new corporate mission – "creating good stories that will live forever" and our corporate vision – "creating the most valuable IP ecosystem for creators and becoming a world leading platform for cultural creativity".

Meanwhile, we announced our new "Grand China Literature" strategy, which aims at establishing an open and inclusive ecosystem with our business partners, with online literature as our cornerstone and IP development as the growth accelerator.

Overview

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2021. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance", etc. on the Company website.

Scope of this Report

This report aims to represent our management measures and practices in terms of operations in compliance, product responsibilities, employee care, supply chain management, environmental protection, climate change and community investment in 2021. We will focus on ESG issues that are of interest to stakeholders.

This report involves China Literature and its subsidiaries for the period from 1 January 2021 to 31 December 2021. Compared with the ESG Report 2020 issued on 20 April 2021, there is no significant adjustment in the scope of this report.

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It has complied with all the "mandatory disclosure" and "comply or explain" provisions and has included explanations for disclosure provisions which are not applicable to us.

Board Statement

The Board oversees the ESG issues of the Group and is the body with the highest responsibility for the management of the Group's ESG. In accordance with the "Environmental, Social and Governance Reporting Guide", we have fully implemented the Group's ESG governance framework, reviewed the establishment and implementation of ESG objectives, and established an effective ESG risk management and internal control system. Details of the governance framework can be found in the "ESG Strategies" section of this report. The Board has also been involved in the assessment, prioritisation and management of ESG issues as detailed in the "Stakeholder Communication" and "Materiality Assessment" sections of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report, which discloses in detail the progress and effectiveness of the Group's ESG efforts in 2021, was considered and approved by the Board at its meeting on 22 March 2022.

Reporting Principles

This report follows the Reporting Principles in the ESG Reporting Guide.

"**Materiality**": Significant stakeholders are identified, and stakeholder communication and materiality assessment are included in the preparation of the Report as evidence for the determination of material ESG issues.

"**Quantitative**": All the data in this report come from relevant statistical reports and official corporate documents. Meanwhile, relevant standards and methodologies used in calculating emissions/energy consumption are reported.

"**Balance**": This report follows the principle of balance and objectively presents the ESG status of the Group.

"**Consistency**": The methodology used for statistics disclosure of key performance indicators (KPIs) in this report is consistent with that used for ESG Report 2020.

ESG Strategies

We are fully aware that the improvement of environmental and social performance can have a material impact on the sustainability of our operations. We have integrated the ESG related risks and opportunities into our corporate operation strategy as guidance on daily business operations.

We have established the ESG management framework consisting of the Board of Directors (the "Board"), the senior management and the working group. To support the Company's commitment to fulfil environmental and social responsibilities, the Board oversees, evaluates, prioritises and manages material ESG issues; formulates relevant management policies, strategies, priorities and objectives; reviews the Company's performance regularly and approves annual ESG reports. The senior management reports relevant risks and opportunities to the Board, and ensures the effectiveness of the ESG risk management and the internal control systems. And the working group is responsible for implementing the strategies and policies of the Board, conducting related management and reporting work and reporting to the senior management on the progress of the work.

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After discussions with the management and combined with the stakeholder communication result and the actual operations, we confirm the following ESG issues that have material impact on us and will discuss our actions on a case-by-case basis in this report:

1. Product responsibilities

- Provide quality and healthy works
- Promote protection of IP rights
- Cultivate excellent creators
- Protect users' rights, interests and privacy

2. Workplace

- Focus on occupational health and safety
- Create favourable working environment
- Provide training and development opportunities

3. Anti-corruption

- Uphold operations in compliance with laws and regulations and abide by business ethics

4. Supply chain management

- Regulate procurement activities to reduce environmental and social risks in the supply chain

5. Community investment

- Engage in public welfare activities to improve positive social benefits

6. Environmental protection

- Practice green operation, protect the environment and conserve resources

We embrace the principle of sustainability, provide employees with favourable working environment, contribute to the society, and uphold development principle of integrity and regulatory compliance. We have established internal response mechanism to assess our ESG performances as our key business performance indicators.

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Stakeholder Communication

Our key stakeholders include shareholders and investors, regulators, industry associations, partners, customers, employees, suppliers and community. We emphasize on stakeholder communication, encourage all stakeholders to participate in and supervise the implementation of our ESG strategies, and have multiple effective communication channels to understand their expectations and needs on its ESG performance, which serve as important reference when developing our ESG strategy.

Stakeholders	Issues concerned	Major communication channels
Shareholders and investors	Abidance by business ethics Transparent information disclosure	Corporate announcements Official website Regular meetings Investors' meetings
Regulators	Abidance by business ethics Compliance marketing and advertisement Corporate governance	Policy consulting Regulator training Official visits Information disclosure
Industry associations	Protection of intellectual rights Creation of a positive culture atmosphere	Seminars On-site investigation Industry activities
Partners	Protection of intellectual rights Provision of quality and healthy works	Daily communication Online platforms Regular meetings
Customers	Provision of quality and healthy works Enhanced protection of customers' privacy	Customer service hotline Online customer service Customer satisfaction survey Social media
Employees	Safeguarding of employees' rights and interests Protection of employees' health Emphasis on employees' progress Regular prevention and control of the pandemic	Employee training Annual meeting Performance evaluation Internal platform
Suppliers	Standardized purchase management Abidance by business ethics	Regular meetings Tendering process Strategy cooperation On-site investigation
Community	Creation of a positive culture atmosphere Engagement in community public welfare activities Environmental protection	Social media Public welfare activities

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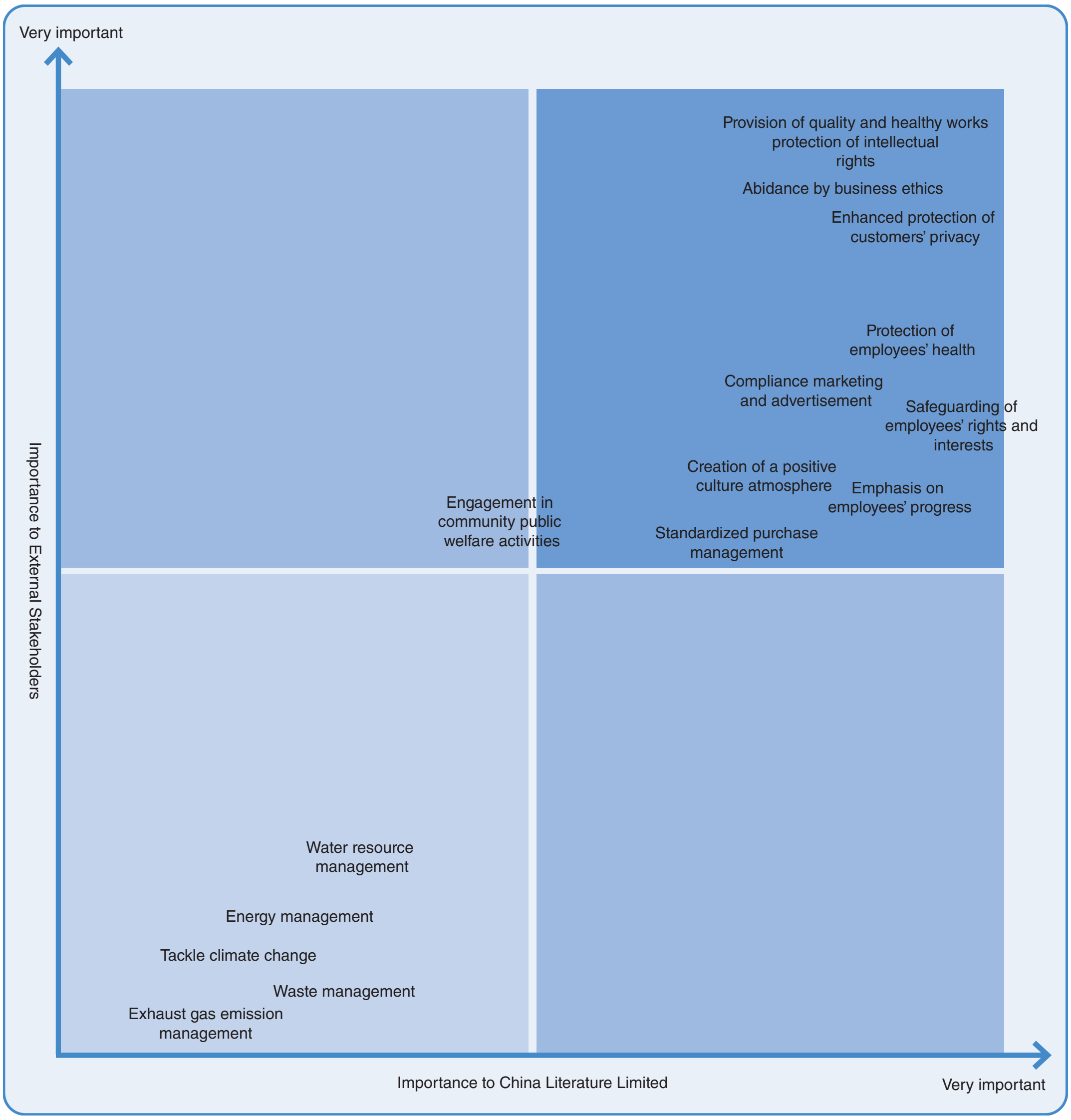
Materiality Assessment

When identifying the importance of ESG issues, we identified 16 ESG issues based on the requirements of the compliance guidelines and the operating situation, and determined the materiality of each issue in consideration of stakeholders' opinions. The materiality assessment results were finally confirmed after the management's evaluation and review, and were reported to the Board.

In 2021, the management reviewed and discussed the materiality assessment result for the second time. As there were no significant changes in the business and operating environment, the previous result of the materiality assessment is still applicable to the Company:



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1 Product Responsibilities

We comply with the Copyright Law of the People's Republic of China, Regulation on Internet Information Service, Law of the People's Republic of China on the Protection of Personal Information, Law of the People's Republic of China on the Protection of Consumer Rights, Advertising Law of the People's Republic of China, Interim Measures for the Administration of Internet Advertising, Cybersecurity Law of the People's Republic of China and other applicable laws and regulations on IP rights, content review, compliance marketing, advertising management, consumer rights and interests protection and privacy protection, and fully implement product responsibilities and legal obligations of the Company.

Online Content Security

As the leading platform of the domestic online literature industry, guiding a healthy online culture, maintaining data security and safeguarding customer privacy are the foundations of our good operation.

In 2021, in line with our development strategy, we set up a oneline security committee led by the CEO and composed of heads of major departments, established a joint working mechanism in which content audit and oneline security complement each other, and formulated and implemented systems on online security management to further enhance our content management capabilities and implement information technology security more effectively.

Green healthy reading

To maintain the qualified, healthy and positive information and content of our product lines, prevent and eliminate the publication of unhealthy information including information that violates national laws, regulations or morality, vulgar information, or information that plagiarizes or infringes on copyright, we have updated and improved the standards and procedures of content review. In addition, through manual check and review, we ensure the authenticity of all content published through advertising, marketing, etc., and prevent misrepresentation and excessive rendering, and strictly abide by relevant laws and regulations.

The content review team regularly participates in the online literature editing business training and continuing education organized by the Cyberspace Administration of China and the Administration of Press and Publication to improve the content management level and strictly control the quality of the platform works. At the same time, the team has been paying attention to the changes in the requirements of the regulatory authorities to create a healthy network environment. We require writers to have a strong sense of social responsibility and create works in line with mainstream socialism values, so we have informed writers of such requirements through relevant writing instructions.

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We carry out content review through both manual review and auto control. We implement the editor-in-chief responsibility policy, appointing the editor-in-chief as the person responsible for content scrutiny review. For all of our websites, our editors must edit and preview some chapters before putting the works on the websites, and strictly control the quality of the works. At the same time, we are actively conducting various in-house content security trainings to enhance the professionalism of our team. In terms of technical monitoring, our China Literature Smart Risk Control System can effectively identify offending content through text semantic analysis, intent recognition, the model of short text identification and other processing technologies. In 2021, we added a new vulgarity and gangland-related model, which enriched our recall capability and significantly improved the overall accuracy and recall rate.

In order to provide healthy reading content to adolescents, we launched the teenager mode, under which a teenage-only content pool was established and high-quality books which are suitable for young readers were selected. Under teenage mode, we have not only blocked games and some advertising-related modules, but also strictly limited the amount of recharge and spending per month per visit, and restricted some of the spending functions. In 2021, we joined the Youth Projection Coalition(護苗聯盟)in Shagnhai as one of the first members to build a barrier to protect young adults' civilised and healthy internet access, as well as green and healthy reading, and to firmly maintain a clear cyberspace.

In 2021, in a variety of assessments by the General Administration of Press and Publication, China Writers' Association and its local branches, the Publicity Department of the CPC Central Committee, and the Administration of Press and Publication, 186 of our works and derivatives won important awards and supports.

Quality film and tv drama content

New Classics Media has formulated clear and effective process and mechanism in the screening of TV drama and film scripts, and acts upon regulatory requirements in the course of the script preparation, rough clipping and review. At the same time, New Classics Media continues to explore policy orientation and social development, and uphold the mainstream values in the political, economic and social dimensions. By matching and giving full play to the team's strengths in IP adaptations, unleashing its own production capabilities and insisting on a long-term strategic layout of boutique, diversification and seriation, it is committed to telling Chinese stories and conveying Chinese emotions. Sticking to the people-centred ideal and realism, New Classics Media advocates works of "ordinary people, strong enthusiasm, positive attitude" to ensure that the production, investment and publishment of works are on a healthy track. In 2021, New Classics Media participated in the co-production of films such as "Hi, Mom"(《你好，李煥英》), "My Country, My Parents"(《我和我的父輩》)and 1921(《1921》), etc., and by recounting the memories of China's past through the lens of "family and country", these films have all achieved excellent box office results due to their high quality and reputation.

With the cooperation of Tencent Pictures, New Classics Media and China Literature Pictures, we combined our talent resources organically to participate in film projects of different genres in a more diversified way, playing to our respective strengths in content development, project development and distribution so as to complement each other, greatly improving the efficiency and success rate of IP development and continuing to create high-calibre and high-value cultural content.

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In 2021, New Classics Media also actively participated in various film festivals, industry seminars and forums, discussing future trends with representatives from film companies, film marketing platforms, film creators, marketing professionals and film academics to promote the sustainable and healthy development of the industry and contribute to the recovery of the industry and the strategy of "strengthening the country through culture". In addition, New Classics Media also considered creators as its most important resource. While collaborating with artists, New Classics Media also selected and incubated promising young directors and screenwriters through its Young Director Training Programme, so as to develop a diverse artistic style for New Classics' works and present a blossoming genre of artistic works.

Information security protection

Our main products have all passed the national information security level protection certification. In order to effectively prevent and deal with network emergencies, we have formulated a relevant contingency plan by focusing on the levels of organisational system, prevention and early warning, emergency response, post-disposal and emergency security to further improve the capability and level of prevention and control of network emergencies and minimise the harm and impact of emergencies.

The protection of our users' personal information is a fundamental principle of our work. We incorporate regulatory requirements on privacy protection into our internal compliance policies, and make every effort to protect users' personal information through reasonable and effective information security technology and management processes. We incorporate the concept of privacy protection into all aspects of product or service development, including legal, product and design factors, and implement internal hierarchical control of permissions to protect user information throughout the process of information collection, transmission, storage, display and access.

We publish our privacy policy in clear and concise language on the websites and applications of our relevant products, make clear to users the purpose, manner and scope of the collection and use of personal information, and prompt users to read the privacy policy and other collection and use rules through pop-up windows and other clear reminders so that users are aware of our information protection initiatives. In addition, we provide effective functions to correct or delete personal information, respond to users' corresponding operations in a timely manner, establish and publish complaints channels about personal information security, and complete verification and processing within the promised time frame. We are also very concerned about the protection of information of underage users and call on guardians and schools to provide proper guidance and work with us to create a safe and healthy online environment for minors. We have implemented the latest regulatory requirements of the State Internet Information Office on data security, clarified the protection of users' personal privacy and sensitive data in the relevant system, used encryption in all online interaction scenarios, encrypted user information, and standardised and optimised the user account cancellation process using self-service and manual customer service to protect the safety of personal information and important data.

Nuture Creative Talent

Combining a wealth of experience, talent and resources, we are committed to creating a nurturing system that is both practical, authoritative and groundbreaking, to continuously deliver creative talent to the industry and build a living force in the content industry.

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We are fully aware that authors are the most valuable partners. We are determined to build the "Writer Ecology 2.0(作家生態2.0)" in self-growth, self-improvement and self-motivation, create a service-oriented and connected platform comprehensively, to provide the personalized needs of writers with the whole chain service and continuously upgrade the service experience of writers.

Cultivate excellent creators

We have established a comprehensive training system covering high-end, intermediate and new writers, and continued to strengthen communication between writers of all kinds and editors to overcome creative difficulties and continued to empower the growth of writers.

We have established the China Literature Qidian Creative Writing Academy (formerly known as the "China Literature Qidian Academy"), inviting many authoritative experts and scholars, well-known online writers and film and television scriptwriters to become mentors of the China Literature Qidian Creative Writing Academy, dedicated to providing the industry with a continuous supply of creative writing talent and building a living force in the content industry. China Literature Qidian Creative Writing Academy provides a comprehensive, multi-level, and graded training system for writers, and in addition to the online learning platform and online community, we also set up an offline "Professional Writer Training Camp" for potential writers with self-improvement needs, offering a number of courses, including theories of online literature business writing, online literature writing and technology, online literature fan operation, professionalism of online literature writers and case studies. For creative storytelling talents, including writers and screenwriters, we integrate existing resources to build a richer, more refined and professional platform for creative storytelling talents to meet across the creative industry, exchange experience and skills in IP adaptation, and build a bridge from literature to the IP universe of film, animation and games. By the end of 2021, China Literature Qidian Creative Writing Academy has published nearly 265 courses, with a cumulative readership of over 6.92 million and a cumulative number of over 100,000 writers served.

We carried out the "Young Writer Support Plan(青年作家扶持計劃)" to support the creation and development of young writers and assist them in promotion and development from four aspects, namely creation incentives, writing competition, honour rank and traffic support.

By the end of 2021, a total of 205 of our writers had joined the China Writers Association. In addition, 18 of our writers were awarded major prizes by the Publicity Department of the CPC Central Committee and other institutions in 2021.

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Improvement of creators' benefits

In adherence to the principles of equal cooperation, mutual benefit and win-win result, we maintain extensive and efficient communication with writers through various channels, such as talkfests, calls, and online platforms to have their voices and opinions heard. In order to meet practical cooperative demands from writers in a wide range and different works, we have continuously raised the criteria of serving writers, provided diversified and optional manners in the field of cooperative agreements and editing services, so as to ensure that writers enjoy the freedom of choice and creativity in different subjects. We are striving to create diversified and productive ecology for creators in different writing characteristics and working with writers to promote the prosperity and development of online literature. In 2021, we established the China Literature Gold Editing Studio, a group of professional and outstanding editors, in addition to the existing editorial team. The studio works in parallel with the editorial team, and writers can sign their own contracts. On the basis of unchanged treatment and resources, the studio provides personalised and customised writing guidance and services to writers in need. Since its inception, the Gold Editing Studio has produced 123 quality works, including 54 new writers.

In order to increase the welfare and income for our writers, we launched a "Star Project of Professional Writers（職業作家星計劃）", which covered writer cultivation, writer care, brand operation and other fields, providing more comprehensive and refined support for writers. We not only gave writers sufficient time for literature exploration, stimulating a writer's enthusiasm of creation, but also provided writers who want to improve their personal and work influence with services such as platform resources, fans operation, exclusive copyright brokers, media & promotion of writers, to cater to the writers' needs. To offer the most effective help to a writer who is caught in trouble due to serious illness or accidents, we also donated to launch a "Special Fund of Love Relief by China Literature（閱文愛心救助專項基金）". The objects of assistance include not only the writer himself, but also the writer's direct relatives, including spouse, children and parents. During the reporting period, we provided RMB300,000 to a writer in aid.

Intellectual Property Protection

We have established a dedicated IP team that is responsible for the internal management of copyright and combating copyright infringement. We have also established a litigation and right protection team to combat piracy and infringement of copyrights, so as to prevent interests of the Company and writers from being violated.

We have adopted an "Integrated Copyright" management mode to enforce our copyright development and protection, which enables us to manage the otherwise fragmented work such as copyright achievement and license in systematic data-processing manner, thus improving online literature copyright management efficiency and providing online writers and partners with timely and professional legal support and comprehensive copyright services. We have cooperated with third parties and entrust them with regular monitoring of scattered digital content infringement, while formulating targeted solutions for the protection of rights, to wipe out infringement and piracy in a more efficient manner.

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We actively participate in public affairs and and events related to copyrights protection, including participating in copyright protection seminars, contributing to establishment of industry standards, promotional activities of the World Intellectual Property Day, the release of "Copyright Alliance (正版聯盟)" and the launch of joint proposal of "Reading Times: Written Copyright Protection in Action". We called on the whole society to pay attention to and jointly advocate the legalisation of online literature copyright protection in cooperation with associations of writers. In 2021, we participated in an expert seminar on copyright protection of China's online literature, focusing on how to establish a better governance mechanism for online literature, discussing the current situation and future of copyright protection for online literature with relevant experts, for jointly promoting the healthy and orderly development of the digital contents industry.

Our IP rights protection work has also been highly recognized by the national judicial authorities and government departments. In 2021, several cases of IP rights protection that we handled were selected in the "Top Ten Legal Supervision Cases in 2020 (二零二零年度十大法律監督案例)", the "Top Ten Intellectual Property Cases of National Courts in 2020 (二零二零年中國法院十大知識產權案件)", etc.

New Classics Media has also clarified the protection measures and guidelines for the use of intellectual property rights, such as trademarks and copyrights, in order to strengthen the management of intellectual property rights, protect intangible assets and build and maintain credibility. New Classics Media has issued a legal statement on its website, making it clear that no one may use New Classics Media's content or works in any form without the written permission of New Classics Media, and that the legal department will strictly review copyright documents to ensure that there is no risk of infringement. New Classics Media also carried out anti-piracy work before, during and after the release of a work through automatic monitoring, manual intervention and resource reporting, as well as technical measures such as blocking pirated links, feature codes and keyword blocking.

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Respond to Users' Feedbacks

We are devoted to keeping the ecological environment of the platform health. To be specific, we have introduced the Polaris Real-time Risk Control Platform to automatically screen and filter the undesirable and noxious information. In addition, we intervene misconducts of users, including but not limited to malicious registration, fake comments, cheating and fraud, conduct credit evaluation on users' behaviour, and make blacklists or whitelists. In 2021, we updated the Polaris Real-time Risk Control Platform in two major directions, namely risk identification capability and broadening the risk control landscape, in order to improve the construction of a comprehensive risk prevention system. We also welcome users to provide feedbacks on bad information and work with us to maintain the healthy and positive content of our major websites. Users can report bad information through the complaints hotline (010-59357051), the complaints page (https://jubao.yuewen.com/) and the complaints portal of the function pages. We will respond to the users' complaints in a timely manner, review and properly resolve all of them, moreover, reply on the resolving results will be sent to the users via SMS or system push. We are primarily engaged in the operation of online literature platforms, the provision of literary content and the production of TV dramas and films. We do not sell or deliver physical products and therefore there are no product recalls.

We place great emphasis on every complaint and suggestion from our users. We use a combination of manual customer service and intelligent customer service robots to answer users' questions and improve our service capabilities. We have set up a set of complaint handling mechanism where front-line employee is responsible for understanding the situation and preliminary handling, second-line employee is responsible for identifying and resolving the issue, and call-back employee is responsible for customer satisfaction survey and follow-ups. For major grievances, we engage relevant departments of the Company to conduct investigation and make a summary based on the result for the purpose of improving internal procedures and deterring similar incidents from occurring. In 2021, we received a total of 46,150 complaints from our customers and achieved a 100% complaint handling rate.

While quickly responding to users' demands, we regularly check and analyse the quality of customer service process and effect in daily work, so as to improve service standard and quality, and realize service enhancement. We conduct targeted training for the senior management, middle-level and front-line employees in daily work, summarize users' feedback in a timely manner, continuously raise employees' awareness of company policies through training, improve employees' business skills, and ensure efficient communication and proper solution of various issues in operation. In 2021, in order to ensure the stable operation of the platform after the launch of new features and activities and to control the intensity of external customer complaints, we formulated customer service pre-judging system to pre-judge users' feedback, review the completeness and reasonableness of the relevant explanations, promptly investigate the gaps, effectively prevent the escalation of customer complaints and maintain the stability of public opinion after the launch of new features and activities.

2 Workplace

Employment and Labour Standards

Recruitment and departure

Our employment practice complies with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Provisions on Prohibition of Child Labour and other applicable laws and regulations (including but not limited to those which prohibit child and forced labor). We verify the education background, job experience and professional background of the candidates to ensure that we hire suitable candidates in accordance with the job requirements. We uphold the principle of equality during the recruitment process and do not discriminate on the grounds of gender, age, nationality, ethnicity, religious belief, sexual orientation or family status, etc. As at the end of the Reporting Period, we employed a total of 1,975 people, all of whom are full time employees.

Employee structure		**2021 (person)**
Total employees		1,975
By gender	Female	1,101
	Male	874
By age group	<30	1,005
	30-39	805
	40-49	148
	≥50	17
By geography	Mainland China	1,957
	Hong Kong, Macau and Taiwan	4
	Overseas	14

In 2021, we were rated "2021 Top Human Resources Management Awards" by 51job.com, and were awarded as "2021 Top 20 Most Influential Employer Brands for Youth" by ciweishixi.com and "China's Leading Internet Employer of 2021" by lagou.com.

We formulate dimission (including resignation and dismissal) procedures in accordance with labour contracts and relevant laws and regulations. When employees leave, we conduct interviews with them to understand the reasons for leaving and obtain suggestions for improvement in the Company.

Employee turnover rate		**2021**
Total turnover rate		40.6%
By gender	Female	39.8%
	Male	41.7%
By age group	<30	45.7%
	30-39	38.5%
	40-49	24.8%
	≥50	11.1%
By geography	Mainland China	40.5%
	Hong Kong, Macau and Taiwan	22.2%
	Overseas	66.7%

Note:

(1) Employee turnover rate = number of employees leaving in the reporting year * 2/(number of employees at the beginning of the reporting year + number of employees at the end of the reporting year)

(2) The statistical scope of the number of separations includes employees who voluntarily quit or terminate their employment due to dismissal, retirement or death.

(3) Among the Group's employees, there are many customer service personnel such as review customer service, game customer service, etc. So the employee turnover rate is relatively high due to the nature of service work.

Labour standards

We strictly abide by the Regulations on the Prohibition of Child Labour and other relevant laws and regulations, and we firmly prohibit the use of child labour and forced labour. We strictly control the recruitment process to avoid misuse of child labour, and if we find misuse of child labour, we will immediately terminate their employment contracts and deal with them properly in accordance with the laws and regulations.

Promotion

Advocating the principle of "Progressive promotion based on employee application depending on practice areas", employees may apply for promotion, if they satisfy the requirements. The promotion review process is fair, open and transparent and our employees will receive feedbacks and opinions. To cater to different development needs, we set up management and expertise career channels with robust career path.

Compensation and benefits

We offer competitive compensation benefits to attract and retain talent. The bonus is performance-based and ensured to reward employees with high performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We offer commercial health and accident insurance to employees apart from basic social insurance. We show our care for the well-being of our employees by various means. For example, we offer various welfare subsidies, festival gifts or bonus; celebrate special occasions of our employees (e.g. wedding, childbirth, birthday, etc.); carry out employee activities (e.g. festival activities, tabloid sports activities, team building activities and family day activities); set up various associations (e.g. basketball association, football association, badminton association, photographic association, fitness club, etc.); provide annual medical check-ups and accident insurance for parents of employees that serve for more than three years, and so forth.

Working hours and holidays

We comply with all related laws & regulations on working hours and holidays, and hope that employees can strike a good work-life balance. We maintain a leave scheme that allows them to enjoy statutory leaves and holidays including annual leave, marriage leave, funeral leave, maternity leave, paternity leave, sick leave, etc. Employees are also entitled to extra annual leave that accrues based on length of service. In addition, employees must be compensated or given days-off for overtime work after internal approval.

Employee communication

We are committed to developing a variety of communication channels for our employees and regularly conduct employee satisfaction surveys through independent third parties. We have established communication channels for employees and management, such as annual company gatherings and employee communication communities, to communicate and reinforce our corporate strategy and culture, and to encourage employees to speak up, creating an effective communication culture of equality and openness.

Health and Safety

In strict compliance with all applicable laws and regulations on safety and health including the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, we encourage healthy work style, strive to provide a comfortable working environment for our employees and ensure their mental and physical health and safety. From 2019 to 2021, there was no work-related fatalities among our employees. The lost days due to work injury were 31 days in 2021.

There are well-established security and fire prevention systems at workplace. In addition, we make efforts to ameliorate working environment and conduct regular disinfection and cleaning to combat COVID-19. We formulated pandemic prevention rule, guiding the unified control of administration, individual protection and medical procedure. Moreover, we distributed pandemic prevention products, publicised pandemic prevention knowledge from time to time in order to strengthen the pandemic prevention awareness and safeguard our employees. In addition, we actively cooperated with local pandemic prevention and control policies, implemented a flexible working model based on the situation of our employees, and organized multiple vaccination sessions in many places.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We arrange annual medical checkups for employees and organize a range of fitness sessions such as traditional Chinese health therapy, neck and shoulder massage and psychological stress relief, etc. We have created a comprehensive, professional and specific "Wenxin Inn" employee assistance programme, opened a physical/psychological counselling hotline and set up stress relief rooms in our Shanghai and Beijing offices. Through various online and offline activities such as bi-weekly psychological tweets, quarterly psychological stress relief activities and on-site psychological counselling, we spread the awareness of healthy living and healthy working to our employees and provide them with comprehensive physical and mental health services. What's more, we equipped the Company with AED medical equipment to rescue patients with sudden cardiac death, trained special personnel to operate it, and made it accessible for the public.

In addition to the set safety policies during filming, New Classics Media set up safety officers for fire prevention, public security and filming safety, and assigned on-site professional medical staff. At the same time, New Classics Media educated crew members on safety before filming, strengthened the awareness of "ensuring safety for production and ensuring safety in production", required relevant personnel to sign safety commitments, and purchased personal accident insurance for crew members. We required all staffs in preparatory group and film crew to live in concentrated area for closed management, and regularly checked sources of purchased goods to ensure the safety of devices, water and food. All film crew must take nucleic acid testing and sign the letter of responsibility to minimise the losses and damage caused by pandemic.

Employee Training

Improvement of employee competency is key to safeguarding the achievement of enterprise development. We put premium on employee training and have invested adequate resources and energy to create various internal and external training opportunities. Employees are encouraged to involve in these trainings taking their actual needs into consideration.

We established China Literature Academy which upholds the slogan of "Learning to be a better self". We engage a wide array of external experts on one hand and build in-house trainer team on the other hand, so as to offer different work and life training programs catering to needs of employees at each stage of career:

Induction training: to acquaint employees with rules, regulations and corporate culture of the Company, we provide induction training for every new employee. In particular, we adopt mentorship for fresh graduates, enabling them to quickly adapt to the Company's culture and working environment with the help of the experienced employees and managers assigned as career mentor.

Specialized training: according to the professional capacity of each employee, we set up the "Full-time Master Club（全職高手俱樂部）" with related committee, which is responsible for specialized training development plan and innovation, organizing professional trainings and attaching importance on the career development of professionals. In 2021, the annual gathering of the Full-Time Mastermind Club（全職高手俱樂部）was themed "Linking Up", inviting senior executives, senior content experts and young consumer researchers to explore with new and existing members of the Full-Time Mastermind Club how to connect deeply with the vision of the organisation in their respective roles.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General training: to enhance employee competency in an all-round manner, we arrange "Du Lala's Promotion Plan(杜拉拉升職「計」)", a workplace skillset training to help them obtain the general skills that facilitate their job performing.

Management training: we arrange management training to enhance employees' management skills. In 2021, we launched "Entry-level Leader Voyage(少將啟航)" and "Middle-level Leader Voyage(中將遠航)" leadership projects, and with a mixed learning model, we helped China Literature's management build excellent leadership.

New Classics Media also conducts diversified training programs based on the industry's unique market competition and knowledge development model, including new employee training to introduce the organizational structure and corporate culture to new employees; inviting the professional leader of each business sector to conduct internal training, sharing experience in project planning, production, and distribution; external training of personal skills such as enforcement, leadership, and communication skills for employees at different ranks; arranging outstanding personnel to attend professional qualification training of industry associations, etc.

Employee training		Percentage of employees trained	Average training hours completed per employee (hours/person)
By gender	Female	59.1%	6.4
	Male	40.9%	5.4
By job level	Senior management	1.8%	7.1
	Mid-level management	7.6%	5.0
	Grassroots	90.6%	6.0

Notes:

(1) Training data is derived from internal training files and includes only online or offline training conducted by Group-level organisations.

(2) Percentage of employees trained = number of employees in the category trained in the reporting period/total number of employees trained * 100%

(3) Average number of hours trained per employee = Total number of hours trained for employees of that category in the reporting period/total number of employees in that category

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3 Anti-Corruption

We implement the strictest laws and ethical standard throughout the operation and comply with the Anti-Unfair Competition Law of the People's Republic of China, the Company Law of the People's Republic of China and other applicable laws and regulations combating bribery, extortion, fraud and money laundering, and adopt an attitude of zero tolerance in relation to corruption in any form. In 2021, there were no concluded legal cases of non-compliance involving corruption, bribery, extortion, fraud or money laundering.

We forge a risk control framework and set three lines of defence, paying close attention to the risks of the Company and its systems and processes and identifying problems in a timely manner to implement rectification. If any fraud, corruption or bribery or other illegal conducts, which are regarded as red lines, are spotted, the employee found and proven to have committed such activity shall be subject to immediate dismissal. In the event that the activity violates any relevant laws or regulations and meets the standard of case filing, the employee shall be transferred to the judicial department. We provide multiple whistleblowing channels and how we should deal with such concerns. We also encourage employees to lodge reports on any suspected breach of the red line and secure the complete confidentiality of reported content and the identity of the whistleblowers. When a report is received or any activity in breach of the red line is detected, the risk control and internal audit department will conduct independent investigation immediately. After completing the investigation, the result will be reported to the internal audit committee for resolution. We also maintain a high level of integrity and professional ethics during the cooperation with our suppliers, and entered into the "Statement against Commercial Bribery (《反商業賄賂行為的聲明》)" with them. We will immediately terminate the cooperation with them in case of any breach.

We encourage all the Directors to participate in continuing professional development by distributing them training materials relating to corporate governance, functions and duties of directors, listing rules and other regulations, ensuring operation compliance. During our day-to-day work, we developed an anti-fraud training framework for all employees, focusing on risk control system, red line terms and content and employee reporting system, actively carrying out anti-corruption trainings. We incorporate the anti-fraudulent propaganda into the training for new employees, and continue to carry out special risk control trainings covering various business units, to raise employees' awareness of anti-fraud and risk control. In the reporting period, we held anti-fraud trainings for 10 times in total involving 548 new employees.

4 Supply Chain Management

We attach supreme attention to managing environmental and social risks of our supply chain by forumating relevant policies, which set out strict requirements for the conduct of internal procurement staff and suppliers. For internal procurement staff, we have developed a code of conduct, while procurement staff are required to declare in writing any relationships they may have with our suppliers. For all external suppliers, we adhere to the principles of openness, transparency, fair competition, equity and honesty. We have signed an Anti-Bribery Statement with all of our long-standing suppliers, as well as provisions relating to labour rights, health and safety and environmental protection commitments. In 2021, we launched a new supplier management system, which classifies suppliers into four levels: service, material, equity and engineering. We conducted life cycle online management, covering all aspects about access, performance assessment, promotion and training, rewards and punishments.

We normally ask for price quotations from at least three vendors. Other factors including service quality and technical capabilities of the vendors will be taken into consideration when selecting vendors. Suppliers are subject to background check on registration record at the industrial and commercial bureau, legal conformity, authorization, etc. before being approved. Relevant documents will be recorded when conducting purchasing activities.

To ensure service quality of suppliers, we collected opinions from departments that use or maintain purchased services and evaluate suppliers' performance in terms of risk control, delivery time, product quality, service quality, respond speed, etc. as meaning reference for procurement, and we may visit suppliers' site based on the situation. For suppliers with unsatisfactory performance, under the premise of complying with the applicable contractual arrangements, we may:

- Discuss with them on the remedial steps to help them improve their service quality;
- Reduce the number of orders;
- Impose penalties;
- Terminate payment.

We may disqualify the supplier, if:

- The supplier practise bribery, breach confidentiality, or seriously violates business ethics;
- We suffer significant losses due to late delivery, quality problems or supplier default.

Region	**Number of suppliers as at 31 December 2021**
Mainland China	3,034
Hong Kong, Macau and Taiwan	19
Total	3,053

Note: Number of suppliers refers to the number of suppliers in the supplier database and region refers to the supplier's registered location.

5 Community Investment

We are committed to creating social benefits and giving back to the society in different ways in the course of business development. Leveraging on the advantages of our platform in cultural communication, we set up the Public Welfare Committee to plan the direction of public welfare projects, project scale and resources, to maximize the value we create for society.

During 2021, we organized the following events:

(a) Realistic Essay Contest(現實主義徵文大賽)

The 5th Realistic Essay Contest was jointly organised by a number of our renowned original literature websites. 2021 marks the 100th anniversary of the founding of the Communist Party of China. With the theme of "Words Remember the Past, Struggle forges the Future", this year's competition attracted over 20,000 works from over 19,000 participating authors. Creators from all walks of life have contributed a large number of outstanding works that reflect the social reality, the development of the times and the changes of the country. We have always been guided by mainstream values and continue to cultivate the best works on realistic themes. At this year's competition, we announced the launch of the "IP Expansion Plan for Award-winning Works(獲獎作品IP拓展計劃)", which aims to develop realistic IPs in a comprehensive manner and convey outstanding works on realistic themes to the public through multiple content formats such as publishing, animation, film and TV drama, so that more people can be inspired by good Chinese stories.

(b) Read for Good. Read for Sweet Dreams(「益」起夜讀,晚安寶貝)

On World Book Day 2021, CCTV-2 New Media, together with China Literature Group and Tencent Charity, launched Read for Good. Read for Sweet Dreams, an online interactive new media campaign in which nine hosts and platinum writers from China Literature Group recorded bedtime stories for left behind children in rural areas, accompanying them through lonely nights and letting them sleep with the sound of caring voices. The event has also successfully set a new Guinness World Record – "The Most Pledges Received for a Reading Campaign". In the future, China Literature Group will pay more attention to children's development, providing interesting and classic bedtime stories to accompany more rural children to sleep warmly and make their childhood less lonely.

(c) Help Fight the Pandemic by Donating Furniture

New Classics Media continues to focus on the development of the pandemic and the needs of the community, contributing to the fight against the pandemic. In May 2021, New Classics Media donated a batch of office furniture to the largest community health service centre in Beijing, which is a fixed vaccination site in Shijingshan District, to help fight against the pandemic. New Classics Media's voluntary donation has helped the centre solve its practical difficulties and fully ensure the implementation of community vaccination, making it more convenient for the public to receive vaccinations and improving the vaccination environment.

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(d) Establish a "Party Building Base for Online Literature Writers"(成立「網路文學作家黨建基地」)

In May 2021, under the guidance of the Online Literature Centre of the Chinese Writers Association, China Literature Group organized some "Platinum God(白金大神)" writers, who are party members, to go to Yan'an, Shaanxi for site selection, and established the first "Party Building Base for Online Literature Writers" in Baota District, Yan'an City, which aims to nourish the original intention of creating with the spirit of Yan'an, and promote the high-quality development of culture with the mainstreaming of online literature. China Literature Group also donated more than 3,500 classic best-selling books to the Baota District Library, and the inclusion of online literature works in the offline library collection will help expand the public cultural service attributes of online literature and enrich the reading experience of local people.

(e) "99 Giving Day" – Let's Read Good Books(「99公益日」– 益起讀好書)

On the occasion of "99 Giving Day" in 2021, we jointly launched a charity activity called "Let's Read Good Books" with Tencent Charity and Dandangzhe Foundation. 18 writers from China Literature gathered together with love to create "Story Books for Children", which use stories to interpret the beautiful qualities of bravery, optimism, and perseverance, so that children can see the goodness in life and grow up as they read. We have also launched "Story Books for Children" on the online platform, encouraging readers to complete reading tasks such as collection, reading, and sharing, to give "hearts", and donated to build book corners to help rural children improve their reading conditions, and help children in resource-poor areas enjoy high-quality reading. In addition, the related proceeds from "Story Books for Children" will also be donated in full to the "Every Class Has a Book Corner" public welfare project of the Shoulder Action Foundation. A total of 785,000 hearts were accumulated in this activity. Through online activities and offline donations, a total of 33 rural class book corners were built.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6 Environmental Protection

Green Operation

Our operations do not involve large scale production activities, nor do they consume significant amounts of energy or generate significant emissions, therefore we have not set quantitative management targets for emissions and resource use for the time being. However, we recognize the importance of environmental protection and conservation of resources for our sustainable development. In line with this acknowledgement, we strictly comply with all applicable environmental protection laws and regulations including the Environmental Protection Law of the People's Republic of China, incorporate office resources and practice energy conservation and filming site environmental protection into the management regulations, and have implemented a number of energy-saving, water-saving and emission reduction measures to enhance energy efficiency, save energy and water, as well as reduce emissions to the extent possible:

- Promote awareness of garbage classification and install classified garbage bins;
- Prioritize on purchasing and using energy-saving office facilities;
- Promote double-sided printing and put in place recycling baskets for recycled paper
- Adopt environmental-friendly vehicles and improve vehicles' maintenance and management;
- Regular maintenance on water consuming equipment and avoid leakage;
- Put up energy and water saving posters to improve employee environmental awareness.

New Classics Media also attaches great importance to the environmental protection and waste management on the filming site, protects plants and vegetation, and cleans up domestic garbage and waste on time.

Climate Change

Global climate change is profoundly affecting human survival and constraining sustainable development, and accelerating action on climate change adaptation is a common issue facing the world.

Governance and strategy

The Board has incorporated climate change-related risks into our enterprise risk management. We have assessed that our exposure to risks from policy, regulation, technology, market and reputation that are stemming from climate are low, and that the physical risks we face mainly arise from acute weather events caused by climate change, such as extreme weathers and natural disasters such as typhoons, heavy rainfall and flooding that could potentially impact our operations. In order to cope with the operational risks that may be caused by extreme weathers and natural disasters, we have developed appropriate emergency procedures and protection measures to minimise damage to office equipment and facilities and safety hazards to employees.

Risk management and metrics

We have incorporated ESG risks into the comprehensive risk assessment and management system of the Company, which includes climate change-related risks. Each department also takes measures in their operational management to manage and reduce greenhouse gas emissions from business operations. For the relevant data on greenhouse gas emissions, please see the section headed "Environmental Key Performance Indicators ("KPI")".

Environmental KPIs

Below are the environmental KPI of the Company. Unless otherwise specified, such KPIs cover our office buildings in Beijing, Shanghai, Suzhou, Shenzhen, Wuhan, Langfang, Xianghe, Hainan and Hong Kong. In 2021, we restructured our business to include two new office in Xianghe and Hainan, Xianghe was relocated and Hainan was newly added. Greenhouse gas emissions and energy consumption both increased in 2021 compared to 2020 as the impact of the pandemic diminished and business operations gradually returned to normal. There was also a significant increase in domestic waste as more employees chose to order takeaway to reduce congregate meals due to the normalisation of the pandemic.

(a) Emissions

	2021	2020	2019
Total GHG emissions (Scopes 1 and 2) (tonnes)	**2,091.44**	1,577.00	1,915.13
Direct GHG emissions (Scope 1) (tonnes)	**99.43**	99.39	166.39
Including: Petrol (tonnes)	**99.43**	99.39	166.39
Energy indirect GHG emissions (Scope 2) (tonnes)	**1,992.01**	1,477.61	1,748.75
Including: Electricity purchased (tonnes)	**1,992.01**	1,477.61	1,748.75
Total GHG emissions per floor area (tonnes per square metre)	**0.04**	0.02	0.03
Total non-hazardous waste (tonnes)	**289.79**	119.70	121.87
Total non-hazardous waste per floor area (tonnes per square metre)	**0.006**	0.002	0.002

Note:

(1) The emissions arising from our operation is limited, mainly includes domestic wastewater. Domestic wastewater has no material impact as it is discharged into municipal pipelines, so KPI A1.1 (types of direct emissions and respective emissions data) is not disclosed in this report.

(2) Due to the business nature, our significant GHG emissions are direct GHG emissions derived from petrol consumption (Scope 1) of vehicles for business and shipping purposes and energy indirect GHG emissions derived from purchased electricity consumption (Scope 2).

(3) The GHG inventory includes carbon dioxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

(4) The hazardous waste arising from our operation is limited, mainly includes waste toner cartridge and waste ink cartridge from printing equipment at office buildings. Waste toner cartridge and waste ink cartridge have no material impact as they are collected and disposed of by printing suppliers, so KPI A1.3 total hazardous waste produced is not disclosed in this report.

(5) Non-hazardous waste arising from our operation mainly includes domestic waste, disposed devices and waste books. Domestic waste is centrally disposed by the property management company. Disposed devices are recorded and handled by the administration department for recycling or disposing. Waste books are recycled and reused. To further reduce non-hazardous waste, we adopt the paperless office platform to reduce paper photocopy and printing, and encourage practices of printing on both sides and reuse of wastepaper, so as to avoid unnecessary paper waste.

(b) Use of Resources

	2021	2020	2019
Total energy consumption (MWh)	**3,059.63**	2,314.68	2,960.77
Direct energy consumption (MWh)	**406.68**	406.50	680.54
Including: Petrol (MWh)	**406.68**	406.50	680.54
Indirect energy consumption (MWh)	**2,652.95**	1,908.18	2,280.23
Including: Electricity purchased (MWh)	**2,652.95**	1,908.18	2,280.23
Total energy consumption per floor area (MWh per square metre)	**0.06**	0.04	0.05
Running water consumption (tonnes)	**25,026.56**	21,102.16	22,094.64
Running water consumption per floor area (tonnes per square metre)	**0.59**	0.38	0.39

Note:

(1) Total energy consumption is worked out by the data of electricity and petrol with reference to the Annex I Fossil Fuel Coefficients in the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

(2) Our water resources come from municipal water supply. The data on running water consumption and running water consumption per employee reported here only cover office buildings in Shanghai, Langfang, Xianghe, Shenzhen and Hainan with the office building of New Classics Media in Beijing. And the water fees of other office buildings in Suzhou, Wuhan, Hong Kong and Beijing are borne by the property management companies. In 2021, because our warehouse moved from Langfang to Xianghe with the significant reduction of square metre, thr running water consumption per floor area increased.

(3) KPI A2.5 total packaging material used for finished products is not applicable to us, as we do not use packaging materials during operation.

(4) As we do not use other environmental and natural resources during operation, the aspect of A3 environmental and natural resources and A3.1 description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them are not applicable to us, so they are not disclosed in this report.

Outlook

In the future, we will adhere to the unity of economic benefits and social benefits, and, based on the actual business of the Company, work together with our employees, share value with our partners, and actively carry out various public welfare activities. We will advocate reading for all, spread and promote positive energy, assist in the building of creative teams and the cultivation of talents, and continue to contribute to building a harmonious society and promoting the great development and prosperity of socialist culture.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Literature Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we Have Audited

The consolidated financial statements of China Literature Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 122 to 236, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of comprehensive income/(loss) for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill
- Fair value measurement of financial assets at fair value through profit or loss – investments in redeemable shares of associates
- Fair value measurement of financial liabilities at fair value through profit or loss – contingent consideration
- Impairment assessment of television series and film rights and adaptation rights and scripts

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 2.7, 2.9, 4(a) and 17 to the consolidated financial statements As at December 31, 2021, the Group had significant amounts of goodwill amounting to RMB6,632.8 million, which were allocated to two cash-generating units ("CGUs"), namely (i) Online Business and (ii) Acquired TV and Film Business. The Group has engaged an independent external valuer to assist management for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill was recognised as at December 31, 2021. Value-in-use ("VIU") calculations were used to determine the appropriate recoverable amounts of the CGUs. We focused on this area due to the magnitude of the carrying amounts of the goodwill as at December 31, 2021, and the fact that significant judgements were required by management when selecting key assumptions to be adopted in the valuation models.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the goodwill impairment assessments by assessing its qualifications, relevant experience and relationship with the Group. We assessed the appropriateness of using VIU calculations as valuation model for the impairment assessments of goodwill. The VIU calculations use cash flow projections based on business plans approved by management. We assessed the key assumptions adopted in the VIU calculations including annual growth rates and gross margin by comparing these assumptions against the historical results of the CGUs, the approved budgets of the CGUs and the Group's business plan. We also assessed certain key valuation assumptions including discount rate with the involvement of our internal valuation experts. We also evaluated management's sensitivity analysis on the key assumptions to which the valuation models are the most sensitive. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found management's impairment assessments of goodwill are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss – investments in redeemable shares of associates Refer to Notes 2.11, 3.3, 4(b) and 20 to the consolidated financial statements As at December 31, 2021, the Group had financial assets at fair value through profit or loss, of which investments in redeemable shares of associates of approximately RMB1,254.1 million were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". The Group has engaged an independent external valuer to assist management for performing the fair value valuation of investments in redeemable shares of associates as at December 31, 2021. We focused on this area due to the high degree of judgement required in determining the respective fair values of investments in redeemable shares of associates, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology (e.g. market approach) and the application of appropriate assumptions (e.g. IPO probability of the associates) in the valuation.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of investments in redeemable shares of associates by assessing its qualifications, relevant experience and relationship with the Group. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used. We tested the valuation of investments in redeemable shares of associates as at December 31, 2021 by evaluating the underlying assumptions including IPO probability of the associates, etc., based on our industry knowledge as well as the recent equity transactions completed by the associates. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found the valuation methodology of the investments in redeemable shares of associates is acceptable and the assumptions made by management are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial liabilities at fair value through profit or loss – contingent consideration Refer to Notes 3.3, 4(b), 9 and 31 to the consolidated financial statements As at December 31, 2021, the financial liability at fair value through profit or loss in relation to the contingent consideration payable for acquiring New Classics Media Holdings Limited (referred to as the "New Classics Media") was amounting to approximately RMB1,151.9 million. During the year ended December 31, 2021, the net fair value change amounting to RMB158.3 million was charged to "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss). The Group has engaged an independent external valuer to assist management for performing the fair value valuation of contingent consideration payable as at December 31, 2021. We focused on this area due to the high degree of judgement required in determining the fair value of the contingent consideration using Monte Carlo Simulation Method. This valuation method required the use of certain key assumptions including growth rate and volatility of the net profit of New Classics Media.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of contingent consideration payable by assessing its qualifications, relevant experience and relationship with the Group. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used (e.g. growth rate and volatility of the net profit of New Classics Media) by comparing these assumptions against the historical results, the approved budget and the business plan of New Classics Media. We also independently assessed the reasonableness of the valuation result by comparing it with the result calculated using on our in-house valuation model. Based on the above procedures we have performed, we found the valuation methodology of the contingent consideration is acceptable and the assumptions made by management are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of television series and film rights and adaptation rights and scripts Refer to Notes 2.8, 4(a), 24 and 25 to the consolidated financial statements As at December 31, 2021, the Group held significant amounts of television series and film rights and adaptation rights and scripts (recorded in "inventories" of consolidated statement of financial position) amounting to RMB1,090.9 million and RMB593.4 million, respectively. Television series and film rights include television series and film rights under production and completed products of approximately RMB813.6 million and RMB277.3 million, respectively. Impairment provisions of RMB4.7 million and RMB49.7 million in respect of television series and film rights and adaptation rights and scripts had been recognised during the year ended December 31, 2021 against these carrying amounts, respectively. We focused on this area due to the fact that management applied significant judgements in assessing the impairment of these television series and film rights and adaptation rights and scripts. In making such assessment, management considered all possible factors that may affect the future production and distribution plans of television series and film rights and adaptation rights and scripts, the available selling price or pre-order price of television series and film rights, discount rate and the current market environment, and exercised judgement in developing its expectation for the future cash flows from these television series and film rights and adaptation rights and scripts.	We assessed whether the accounting policies of the Group in respect of impairment of television series and film rights and adaptation rights and scripts were reasonable by comparing with relevant accounting standards and benchmarking with industry practice. We tested, on a sample basis, management's recoverability assessment of the television series and film rights and adaptation rights and scripts, based on the significance of the balance of each television series and film right and each adaptation right and script. For each selected sample of adaptation rights and scripts and television series and film rights under production, we (i) examined the related agreements of the purchased adaptation rights and scripts to check their stipulated period of validity; (ii) discussed with management to understand their future production and distribution plans; and (iii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment by comparing the estimated selling price and related costs of the television series and film rights to the available price of the television series, film box office receipts, production and distribution costs of similar television series and films released and the pre-order price offered by the customers if available.

Key Audit Matter	How our audit addressed the Key Audit Matter
	For each selected sample of television series completed, we examined the license agreements entered into by the Group with respective TV stations and online platforms to validate the estimated selling price of television series. For each selected sample of television series completed with no associated license agreements entered into, we compared the estimated selling price of these television series to the available price of similar television series. For each selected sample of film rights completed but yet to be released, we compared the estimated selling price of these film rights to film box office receipts of similar films released and actual box office receipts if available. We also assessed the reasonableness of the discount rate used in the cash flow forecast for impairment assessment and tested the accuracy of mathematical calculation of the impairment assessment. Based on the above procedures we have performed, we found the assumptions adopted and judgment applied by management in the impairment assessments of television series and film rights and adaptation rights and scripts were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheuk Chi Shing.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 22, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the year ended December 31, 2021

	Note	2021 RMB'000	2020 RMB'000
		Year ended December 31,	
Revenues	6	**8,668,244**	8,525,701
Cost of revenues	7	**(4,068,801)**	(4,291,625)
Gross profit		**4,599,443**	4,234,076
Interest income	11	**125,353**	116,315
Other gains/(losses), net	9	**1,448,083**	(5,322,903)
Selling and marketing expenses	7	**(2,700,814)**	(2,498,187)
General and administrative expenses	7	**(1,323,845)**	(873,766)
Net reversal of/(provision for) impairment losses on financial assets		**24,420**	(130,203)
Operating profit/(loss)		**2,172,640**	(4,474,668)
Finance costs	10	**(68,763)**	(68,785)
Share of net profit of associates and joint ventures	18	**199,191**	4,733
Profit/(loss) before income tax		**2,303,068**	(4,538,720)
Income tax (expense)/benefit	12	**(460,141)**	38,523
Profit/(loss) for the year		**1,842,927**	(4,500,197)
Other comprehensive income/(loss):			
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		**(21,897)**	–
Currency translation differences		**(14,066)**	(74,717)
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive (loss)/income of associates and joint ventures	18	**(28,913)**	1,031
Currency translation differences		**(13,328)**	41,375
Total comprehensive income/(loss) for the year		**1,764,723**	(4,532,508)
Profit/(loss) attributable to:			
– Equity holders of the Company		**1,846,609**	(4,483,869)
– Non-controlling interests		**(3,682)**	(16,328)
		1,842,927	(4,500,197)
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		**1,769,207**	(4,516,202)
– Non-controlling interests		**(4,484)**	(16,306)
		1,764,723	(4,532,508)
Earnings/(loss) per share (expressed in RMB per share)			
– Basic earnings/(loss) per share	13(a)	**1.83**	(4.48)
– Diluted earnings/(loss) per share	13(b)	**1.82**	(4.49)

The notes on pages 129 to 236 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

		As of December 31,	
		2021	2020
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**45,123**	39,590
Right-of-use assets	16	**281,465**	83,275
Intangible assets	17	**7,455,499**	7,676,063
Investments in associates and joint ventures	18	**932,278**	598,576
Financial assets at fair value through profit or loss	20	**1,310,030**	915,318
Financial asset at fair value through other comprehensive income	21	**14,073**	–
Deferred income tax assets	22	**271,815**	188,519
Prepayments, deposits and other assets	23	**256,721**	314,088
		10,567,004	9,815,429
Current assets			
Inventories	24	**653,764**	571,830
Television series and film rights	25	**1,090,892**	640,496
Trade and notes receivables	26	**2,747,240**	3,296,287
Prepayments, deposits and other assets	23	**1,031,971**	734,808
Term deposits	27	**2,678,031**	3,408,679
Cash and cash equivalents	27	**4,528,412**	2,848,231
		12,730,310	11,500,331
Total assets		**23,297,314**	21,315,760
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	32	**649**	645
Shares held for RSU schemes	32	**(17,450)**	(9)
Share premium	32	**16,412,728**	16,259,688
Other reserves	33	**1,455,101**	1,268,188
Accumulated losses		**(664,573)**	(2,435,005)
		17,186,455	15,093,507
Non-controlling interests		**516**	5,000
Total equity		**17,186,971**	15,098,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

		As of December 31,	
		2021	2020
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	28	**382,542**	691,494
Lease liabilities	16	**201,850**	34,830
Long-term payables	17	**9,119**	16,894
Deferred income tax liabilities	22	**149,286**	187,603
Deferred revenue	6	**28,846**	31,346
Financial liabilities at fair value through profit or loss	31	**827,190**	1,037,924
		1,598,833	2,000,091
Current liabilities			
Borrowings	28	**792,776**	554,444
Lease liabilities	16	**72,573**	50,387
Trade payables	29	**1,127,368**	1,039,653
Other payables and accruals	30	**1,185,762**	1,149,708
Deferred revenue	6	**669,764**	880,333
Current income tax liabilities		**338,603**	184,459
Financial liabilities at fair value through profit or loss	31	**324,664**	358,178
		4,511,510	4,217,162
Total liabilities		**6,110,343**	6,217,253
Total equity and liabilities		**23,297,314**	21,315,760

The notes on pages 129 to 236 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 122 to 236 were approved by the Board of Directors on March 22, 2022 and were signed on its behalf:

Director   Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU schemes RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2021	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507
Comprehensive income								
Profit/(loss) for the year	–	–	–	–	1,846,609	1,846,609	(3,682)	1,842,927
Other comprehensive loss								
– Share of other comprehensive loss of associates and a joint venture (Note 18)	–	–	–	(28,913)	–	(28,913)	–	(28,913)
– Currency translation differences	–	–	–	(26,592)	–	(26,592)	(802)	(27,394)
– Net loss from change in fair value of financial asset at fair value through other comprehensive income	–	–	–	(21,897)	–	(21,897)	–	(21,897)
Total comprehensive income/(loss) for the year	–	–	–	(77,402)	1,846,609	1,769,207	(4,484)	1,764,723
Transaction with owners								
Share-based compensation expenses (Note 34)	–	–	–	188,138	–	188,138	–	188,138
Transfer of vested RSUs	–	(48,987)	5,814	–	–	(43,173)	–	(43,173)
Repurchase of shares for RSU scheme	–	–	(23,253)	–	–	(23,253)	–	(23,253)
Issue of new share pursuant to RSU scheme (Note 32)	2	–	(2)	–	–	–	–	–
Issue of ordinary shares as consideration for a business combination (Note 31)	2	202,027	–	–	–	202,029	–	202,029
Profit appropriations to statutory reserves (Note 33)	–	–	–	76,177	(76,177)	–	–	–
Transactions with owners in their capacity for the year	4	153,040	(17,441)	264,315	(76,177)	323,741	–	323,741
As of December 31, 2021	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

	Attributable to equity holders of the Company							
	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	Total RMB'000
As of January 1, 2020	642	16,161,809	(19)	1,135,387	2,098,748	19,396,567	14,244	19,410,811
Comprehensive loss								
Loss for the year	–	–	–	–	(4,483,869)	(4,483,869)	(16,328)	(4,500,197)
Other comprehensive loss								
– Share of other comprehensive income of associates and a joint venture (Note 18)	–	–	–	1,031	–	1,031	–	1,031
– Currency translation differences	–	–	–	(33,364)	–	(33,364)	22	(33,342)
Total comprehensive loss for the year	–	–	–	(32,333)	(4,483,869)	(4,516,202)	(16,306)	(4,532,508)
Transaction with owners								
Share-based compensation expenses (Note 34)	–	–	–	120,204	–	120,204	–	120,204
Transfer of vested RSUs	–	9	10	–	–	19	–	19
Issue of ordinary shares as consideration for a business combination (Note 31)	3	97,870	–	–	–	97,873	–	97,873
Liquidation of a non-wholly owned subsidiary	–	–	–	–	–	–	(490)	(490)
Capital injection	–	–	–	–	–	–	2,598	2,598
Acquisition of non-controlling interests (Note 33)	–	–	–	(4,954)	–	(4,954)	4,954	–
Profit appropriations to statutory reserves (Note 33)	–	–	–	49,884	(49,884)	–	–	–
Transactions with owners in their capacity for the year	3	97,879	10	165,134	(49,884)	213,142	7,062	220,204
As of December 31, 2020	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507

The notes on pages 129 to 236 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**1,643,635**	1,250,932
Income tax paid		**(525,167)**	(140,675)
Net cash flows generated from operating activities		**1,118,468**	1,110,257
Cash flows from investing activities			
Placements of term deposits with initial term of over three months		**(2,626,108)**	(3,408,679)
Receipts from maturity of term deposit with initial term of over three months		**3,355,585**	415,752
Payment for investments in associates and a joint venture		**(405,615)**	–
Purchase of property, plant and equipment		**(25,073)**	(23,728)
Purchase of intangible assets		**(214,049)**	(264,581)
Proceeds from disposals of property, plant and equipment		**523**	279
Interest received		**136,109**	103,994
Settlement of contingent consideration payable		**(204,201)**	(1,021,006)
Payments for acquisition of financial assets at fair value through profit or loss		**(722,414)**	(97,874)
Payments for acquisition of a financial asset at fair value through other comprehensive income		**(33,050)**	–
Dividends received		**132,938**	107,293
Proceeds from sale of held for sale asset	38(c)	**1,076,817**	–
Proceeds from disposal of intangible assets		**133,962**	–
Proceeds from disposal of investment in an associate		**329,216**	–
Proceeds from disposal of a financial asset at fair value through profit or loss		**1,585**	–
Net cash flows generated from/(used in) investing activities		**936,225**	(4,188,550)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**483,824**	1,251,436
Repayments of borrowings	**(554,444)**	(1,308,570)
Receipts from restricted bank deposits	**–**	90,724
Proceeds from financial investors in TV programs and film production	**6,658**	41,081
Repayments to financial investors in TV programs and film production	**(110,869)**	(44,312)
Finance costs paid	**(63,681)**	(67,415)
Proceeds from capital injection to a subsidiary by non-controlling interests	**–**	2,598
Repurchase of shares for RSU scheme	**(23,253)**	–
Principal elements of lease payments	**(88,222)**	(57,880)
Net cash flows used in financing activities	**(349,987)**	(92,338)
Net increase/(decrease) in cash and cash equivalents	**1,704,706**	(3,170,631)
Cash and cash equivalents at the beginning of the year	**2,848,231**	5,931,849
Exchange (losses)/gains on cash and cash equivalents	**(24,525)**	87,013
Cash and cash equivalents at the end of the year	**4,528,412**	2,848,231

The notes on pages 129 to 236 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

1 General Information

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

1 General Information (Continued)

The PRC regulations restrict foreign ownership of companies that provide Internet-based business and TV and film production and distribution business, which include activities and services operated by the Group. The Group operates the online business and TV and film business through a series of contractual arrangements (collectively, "Structure Contracts"). For example, Structure Contracts were entered into among Shanghai Yuechao Networking Technology Co., Ltd. ("Yuechao"), a wholly foreign owned enterprise incorporated in the PRC owned by the Group, Shanghai Yuewen Information Technology Co., Ltd. ("Shanghai Yuewen"), a limited liability company established in the PRC by certain management of the Group, and certain management. Under the Structure Contracts, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Shanghai Yuewen and its subsidiaries. In summary, the Structure Contracts provide the Company through Shanghai Yuewen with, among other things:

- the right to receive the cash received by Shanghai Yuewen from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that Yuechao owns the valuable assets of the business through the assignment to Yuechao of the principal present and future intellectual property rights of Shanghai Yuewen without making any payment; and

- the power to control the management and financial and operating policies of Shanghai Yuewen.

As a result, Shanghai Yuewen is accounted for as a controlled structured entity of the Company. Similar Structure Contracts were also executed for other PRC operating companies of the Group similar to Shanghai Yuewen. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

2.1.1 Compliance with IFRS

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

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark (IBOR) reform – phase 2

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

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

2.1.4 New standards and interpretations not yet adopted

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

		Effective for annual periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	**January 1, 2022**
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	**January 1, 2022**
Amendments to IFRS 3	Reference to the Conceptual Framework	**January 1, 2022**
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 Cycle	**January 1, 2022**
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	**January 1, 2023**
IFRS 17	Insurance contract	**January 1, 2023**
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	**January 1, 2023**
Amendments to IAS 8	Definition of Accounting Estimates	**January 1, 2023**
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	**January 1, 2023**
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	**To be determined**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of Consolidation and Equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income/(loss), statement of financial position and statement of changes in equity respectively.

2.2.2 Associates

Associates are all entities in which the Group has significant influence, but not control or joint control, over the management, including participation in the financial and operating decisions. Investments in associates are accounted for using the equity method of accounting (refer to Note 2.2.4 below), after initially being recognised at cost.

2.2.3 Joint arrangements

Under IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has both joint operations and joint ventures.

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of Consolidation and Equity Accounting (Continued)

2.2.3 Joint arrangements (Continued)

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

Interests in joint ventures are accounted for using the equity method (Note 2.2.4), after initially being recognised at cost in the consolidated statement of financial position. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill.

2.2.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.2 Principles of Consolidation and Equity Accounting (Continued)

2.2.5 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Separate Financial Statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of Significant Accounting Policies (Continued)

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollars ("USD"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income/(loss).

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated statement of comprehensive income/(loss) as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified at fair value through other comprehensive income ("FVOCI"), are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.5 Foreign Currency Translation (Continued)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each consolidated statement of comprehensive income/(loss) are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income or loss.

2 Summary of Significant Accounting Policies (Continued)

2.6 Property, Plant and Equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income/(loss) during the financial period in which they are incurred.

Depreciation is using the straight-line method to allocate their cost net of their residual values over their estimated useful lives, as follows:

Computer equipment	3 to 5 years
Furniture and fixtures	2 to 5 years
Motor vehicles	4 to 5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss).

Construction in progress represents leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalised costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as set out above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.7 Intangible Assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Acquired trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks with a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and over their estimated useful lives of no more than 20 years. The useful lives of the trademarks are the periods over which the trademarks are expected to be available for use by the Group, and the management of the Group also takes into account of past experience when estimating the useful lives.

The trademark that acquired in the acquisition of New Classics Media has indefinite useful life. This trademark will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that it may be impaired.

2 Summary of Significant Accounting Policies (Continued)

2.7 Intangible Assets (Continued)

(c) Copyrights of contents

Copyrights of contents purchased from writers are initially recognised and measured at costs. Copyrights of contents acquired in a business combination are recognised initially at fair value at the acquisition date. The Group adjusted the estimated useful lives of copyrights of certain contents from 3 to 5 years to 18 months to 3 years with effective from January 1, 2021. The effect of such change in accounting estimate is disclosed in Note 17. After the change of accounting estimate, copyrights of contents are amortised on a straight-line basis over their estimated useful economic lives of 18 months to 5 years (2020: 3 to 5 years).

(d) Other intangible assets acquired in a business combination

Other intangible assets acquired in a business combination, mainly including writers' contracts, distribution channel relationships, customers relationships, non-compete agreements, software and domain names, are recognised initially at fair value at the acquisition date and subsequently carried at the amount initially recognised less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

Writers' contracts	5 to 6 years
Distribution channel relationships	5 years
Customer relationships	5 years
Software	3 to 10 years
Domain names	4 to 10 years
Non-compete agreements	4 years

2 Summary of Significant Accounting Policies (Continued)

2.7 Intangible Assets (Continued)

(e) Other intangible assets

Other intangible assets mainly include software, domain names and non-compete agreements associated with certain senior management members' resignation, which were not acquired in a business combination.

Software and domain names are initially recognised and measured at cost. They are amortised over their estimated useful lives (generally 3 to 10 years) using the straight-line method.

Non-compete agreements associated with certain senior management members' resignation are initially recognised and measured at fair value, and are amortised over a period ranging from 2 to 5 years.

2.8 Television Series and Film Rights

2.8.1 Adaptation rights and scripts

Cost includes all direct costs associated with the purchase of adaptation rights and payments on scripts. Adaptation rights and scripts are transferred to "television series and film rights under production" upon beginning of production.

2.8.2 Television series and film rights under production

Television series and film rights under production are carried at cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and films rights, including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs are recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to "television series and film rights completed" upon completion of production.

2 Summary of Significant Accounting Policies (Continued)

2.8 Television Series and Film Rights (Continued)

2.8.3 Television series and film rights completed

Television series and film rights completed are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements.

2.8.4 Impairment of television series and film rights

Impairment assessment of the television series and film rights is assessed on an annual basis or whenever events or changes in circumstances indicate that the carrying amount is below the recoverable amount, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the consolidated statement of comprehensive income/(loss). The recoverable amounts of the television series and film rights are determined and reviewed on a title-by-title basis. The recoverable amount is the higher of their fair value less costs of disposal and value in use. In making the assessment, the Group considered unobservable inputs and assumptions that may affect the future production and distribution plans of television series and film rights.

2.9 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ("CGU"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.10 Non-current Assets Held-for-sale

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

2.11 Investments and Other Financial Assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of Significant Accounting Policies (Continued)

2.11 Investments and Other Financial Assets (Continued)

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is recognised in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains/(losses), net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income/(loss).

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains/(losses), net". Interest income from these financial assets is recognised in finance income using the effective interest rate method. Foreign exchange gains and losses are presented "other gains/(losses), net" and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income/(loss).

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other gains/(losses), net" in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.11 Investments and Other Financial Assets (Continued)

2.11.3 Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other gains/(losses), net" when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss) as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.11.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 26 for further details.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2 Summary of Significant Accounting Policies (Continued)

2.13 Inventories

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale.

Paper and books are stated at the lower of cost, using the weighted average method, or net realisable value. The inventory held with the distributors is on a consignment basis and is carried as such until sold or returned. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Adaptation rights and scripts (the "Rights") are initially recognised at costs, including all direct costs associated with the purchase of adaptation rights and payments on scripts, which are held for sale in the ordinary course of business. The Rights are reclassified to "Television series and film rights" for the purpose of its own production.

2.14 Trade and Notes Receivables

Trade and notes receivables are amounts due from customers or agents for services performed or inventories sold in the ordinary course of business. If collection of trade and notes receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and notes receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. During the year ended December 31, 2021, no borrowing costs were capitalised by the Group (2020: nil).

2 Summary of Significant Accounting Policies (Continued)

2.19 Current and Deferred Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.19 Current and Deferred Income Tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(c) Uncertain tax positions

In determining the amount of current and deferred income tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

2.20 Employee Benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

2 Summary of Significant Accounting Policies (Continued)

2.20 Employee Benefits (Continued)

(c) Share-based compensation benefits of the Group

The Group operates a number of share-based compensation plans (including share option plan and restricted share unit ("RSU") schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and RSUs) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments is recognised as an expense over the vesting period, i.e. the period over which all of the specified vesting conditions are to be satisfied and credited to equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing binomial model, which includes the impact of market performance conditions but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date.

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to become vested.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement date and grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.20 Employee Benefits (Continued)

(c) Share-based compensation benefits of the Group (Continued)

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognised over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognised over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

At the end of each reporting period, the Group revises its estimates of the number of RSUs that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 Summary of Significant Accounting Policies (Continued)

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue Recognition

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.22.1 The accounting policy for the Group's principal revenue sources

(a) Online paid reading

The Group generates revenue from the sale of online premium literature content to the users primarily through its products, its self-operated channels on Tencent products and third-party platforms.

With respect to the online paid reading revenue that derived from the Group's products and self-operated channels, the Group is determined to be the primary obligor and accordingly, the Group records revenue on a gross basis, and the platform distribution charges by Tencent are recorded as cost of revenues. The users generally purchase the content by chapter or by book and cannot cancel the purchase once made. The users can pay for their purchases either through the online payment channels, tokens issued by related parties or through credits directly deposited into their respective accounts which they can make directly on the Group's self-owned platforms or related parties' platforms that including the channels operated by the Group. The purchased content usually has no expiry date unless otherwise stated. The revenue from purchase of online content is recognised at the time of purchase by the users as the Group does not have further obligation after providing the content to the user upon purchase and all other criteria for revenue recognition is met.

With respect to the online paid reading revenue that derived from third-party platforms, the Group evaluated and determined it is not the primary obligor in the service rendered to the end users and accordingly, the Group records its revenue based on the portion of the sharing of revenues that derived from the platforms.

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations

Intellectual property operations revenues consist primarily of license of television series and film rights and film distribution in movie theatres (collectively referred to as "revenue from the licensing and distribution of film and television properties"), copyrights licensing and in-house online games operations.

- ***License of television series and film rights***

  The Group generates revenue from license of television series and film rights to TV stations and online platforms. Revenue from license of television series and film rights is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, which is the TV stations and online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

  In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

  At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Film distribution in movie theatres***

The Group generates revenue from film distribution in the movie theatres. Revenue from film distribution represents the Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

However, films are an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is a usage-based royalty. The Group recognises revenue generated from a usage-based royalty only when (or as) the later of the following events occurs:

(i) the usage occurs; and

(ii) the performance obligation to which some or all of the usage-based royalty has been satisfied.

For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation is satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Payments made by the Group to the audiences through online ticket platform for ticket discount are assessed and accounted for the same as those paid directly to the Group's customer, which are recorded as net of revenue.

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Copyrights licensing***

  The Group generates revenues from sub-licensing copyrights of literary works obtained from writers to online game companies, television producers, movie studios, and traditional offline book publishers for agreed periods. The revenue from sub-licensing agreements is recognised when all the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; (iii) the price to the customer is fixed or determinable; and (iv) collectability is probable. Depending on the terms of the respective agreements, revenue is recognised either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront with no future obligations or over the period of the sub-licensing agreement under which the Group need to provide continuous services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyright) is recognised when the contingency is resolved.

- ***In-house online games operations***

  The Group provides game operation services through its own web-based platforms and third party web-based platforms. The Group's games are free-to-play and players can pay for virtual items to enhance the in-game experience. Upon the sale of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective games. As such, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognised as revenue subsequently only when the services have been rendered. The Group recognised the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different in-house online games operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Sales of adaptation rights and scripts***

  Revenue from sales of adaptation rights and scripts is recognised when or as the control of the rights is transferred to a customer. Control of the rights is transferred to the customers, when an agreement has been signed with a customer and the required documents have been delivered.

(c) Other revenues

The Group's other revenues are primarily derived from sales of physical books, game publishing and advertising. The Group recognises revenue when the effective control of the physical books are transferred, or when the respective services are rendered to the customers. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

2.22.2 Principal versus agent considerations

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

The Group evaluates whether it is appropriate to record the gross amount of sales and related costs or the net amount earned as revenues. Generally, when the Group is primarily obligated in a transaction and has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross sale amount. The Group generally records the net amounts as revenues earned if it is not primarily obligated and does not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, or some combination thereof.

2 Summary of Significant Accounting Policies (Continued)

2.22 Revenue Recognition (Continued)

2.22.3 Incentives

For the online paid reading users loyalty programme ("VIP customers programme") operated by the Group on its self-owned platform products, the loyalty programme revenue is allocated between the fair value of the VIP customers programme and that of other components of the sale. The amount allocated to the VIP customers programme is deferred, and is recognised as revenue when the Group has fulfilled its obligations to supply the discounted reading service under the terms of the VIP customers programme. Contract liabilities are recognised until the incentives are redeemed.

2.23 Interest Income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.24 Government Grants/Subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

2 Summary of Significant Accounting Policies (Continued)

2.25 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Summary of Significant Accounting Policies (Continued)

2.25 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets are small items of furnitures.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liabilities and the amortisation of the right-of-use assets, there will be a net temporary difference on which deferred tax is recognised.

2.26 Research and Development Expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.27 Dividends Distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management

3.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, Hong Kong Dollars ("HKD"), USD, Singapore Dollars ("SGD") and Japanese Yen ("JPY"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

As of December 31, 2021 and 2020, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD RMB'000	RMB RMB'000	HKD RMB'000	SGD RMB'000	JPY RMB'000
As of December 31, 2021					
Monetary assets, current	**143,164**	**607,625**	**57,796**	**1,849**	**2,291**
Monetary liabilities, current	**–**	**8,080**	**5,939**	**176**	**–**
As of December 31, 2020					
Monetary assets, current	100,913	548,367	477,096	284	–
Monetary liabilities, current	18,587	914	4,521	50	–

The aggregate net foreign exchange loss was recognised in consolidated statement of comprehensive income/(loss) and included in "finance costs".

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As the HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and the USD to be insignificant. As of December 31, 2021 and 2020, management considers that any reasonable changes in foreign exchange rates of SGD and JPY against RMB are insignificant. Accordingly, no sensitivity analysis is presented for foreign exchange rates of SGD and JPY.

For the PRC subsidiaries whose functional currencies are RMB, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the post-tax profit for the year ended December 31, 2021 would have been approximately RMB10,722,000 higher/lower (post-tax loss for the year ended December 31, 2020: RMB5,406,000 lower/higher), mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. For group companies outside of the PRC whose functional currencies are USD, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, the post-tax profit for the year ended December 31, 2021 would have been approximately RMB59,818,000 higher/lower (post-tax loss for the year ended December 31, 2020: RMB54,769,000 lower/higher) mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in RMB.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and term deposits, details of which have been disclosed in Note 27.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 28 Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

As of December 31, 2021, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2021 would have been approximately RMB1,965,000 lower/higher (post-tax loss for the year ended December 31, 2020: RMB2,094,000 higher/lower).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk in respect of the long-term equity investments measured at fair value through profit or loss (Note 20) held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL at the end of each reporting period. If prices of the instrument held by the Group had been 5% (December 31, 2020: 5%) higher/lower as of December 31, 2021, post-tax profit for the year would have been approximately RMB64,823,000 higher/lower as a result of gains/losses on financial instruments classified as at FVPL (post-tax loss for the year ended December 31, 2020: RMB45,345,000 lower/higher).

(b) Credit risk

The Group is exposed to credit risk primarily in relation to its cash and deposits (including term deposits) placed with banks and financial institutions, trade receivables, as well as other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and deposits

Credit risk is managed on a Group basis. To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit losses are immaterial.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables

To manage this risk, the Group has policies in place to ensure that revenues of on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. As of December 31, 2021, approximately 57.5% of the total trade receivables were due from Tencent.

For the Group's online paid reading business, trade receivables at the end of each reporting period were mainly due from certain content distribution partners (including Tencent's platforms) in Mainland China. If the strategic relationship with content distribution partners is terminated or scaled back; or if content distribution partners alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with content distribution partners to ensure effective credit control. In view of the history of cooperation with content distribution partners and the sound collection history of receivables due from them, the directors of the Company believe that the expected credit loss inherent in the Group's outstanding trade receivable balances due from content distribution partners (except for the impaired receivables) is low.

For trade receivables of the physical books business, which are mainly from agencies, the credit quality of each agent is assessed, which takes into account its financial position, past experience and other factors. Based on historical experience, majority of the trade receivables of the physical books business were settled within credit term, hence the expected credit loss is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

For trade receivables due from TV stations, online platforms and film distributors, if the strategic relationship with TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if TV stations, online platforms and film distributors alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with TV stations, online platforms and film distributors to ensure effective credit control.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the year end with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations; and
- actual or expected significant changes in the operating results of customers.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

The Group also performed assessment at an individual basis, when it becomes aware of an increase in credit risk for the individual financial instrument.

On that basis, the loss allowance as of December 31, 2021 and 2020 was determined as follows:

As of December 31, 2021	Within credit terms	Credit term – 30 days	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate							
Expected loss rate on collective basis	0.31%	0.68%	0.93%	1.00%	1.00%	18.76%	
Expected loss rate on individual basis	–	1.00%	–	–	–	19.05%	
Gross carrying amount – trade receivables	1,633,977	171,271	212,722	141,402	126	735,738	2,895,236
Loss allowance							
Loss allowance provision on collective basis	5,042	1,037	1,986	1,414	1	32,689	42,169
Loss allowance provision on individual basis	–	177	–	–	–	106,965	107,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

As of December 31, 2020	Within credit terms	Credit term – 30 days	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate							
Expected loss rate on collective basis	0.54%	0.71%	0.83%	1.00%	1.00%	13.48%	
Expected loss rate on individual basis	–	–	–	–	–	100.00%	
Gross carrying amount – trade receivables	1,395,293	447,787	345,981	137	49,700	1,240,420	3,479,318
Loss allowance							
Loss allowance provision on collective basis	7,411	3,200	2,857	1	497	166,977	180,943
Loss allowance provision on individual basis	–	–	–	–	–	2,088	2,088

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**183,031**	66,232
Provision for doubtful receivables	**69,101**	150,171
Receivables written off during the year as uncollectable	**(18,966)**	(200)
Collection of amounts previously impaired	**(83,855)**	(33,172)
At the end of the year	**149,311**	183,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of rental deposits, staff advances and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

- actual or expected significant changes in the operating results of the borrower; and

- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower.

Management considers other receivables to be low credit risk when they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2021					
Trade payables	1,127,368	–	–	–	1,127,368
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable)	860,243	872	–	–	861,115
Borrowings	792,776	382,542	–	–	1,175,318
Financial liabilities at fair value through profit or loss (Note 31)*	204,026	186,858	355,236	–	746,120
Lease liabilities (Note 16)	77,189	76,244	142,019	–	295,452
	3,061,602	646,516	497,255	–	4,205,373

* Financial liabilities at fair value through profit or loss will be settled by a combination of cash and new consideration shares. Except for the undiscounted cash flows as disclosed above, ordinary shares of approximately RMB120,638,000, RMB116,317,000 and RMB213,661,000 will be issued as consideration for the business combination in less than 1 year, between 1 and 2 year and between 2 and 5 years, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.1 Financial Risk Factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2020					
Trade payables	1,039,653	–	–	–	1,039,653
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable)	958,766	12,988	788	–	972,542
Borrowings	554,444	300,000	391,494	–	1,245,938
Financial liabilities at fair value through profit or loss (Note 31)	157,193	155,941	313,688	–	626,822
Lease liabilities (Note 16)	49,907	31,667	8,823	223	90,620
	2,759,963	500,596	714,793	223	3,975,575

3.2 Capital Risk Management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debts. As of December 31, 2021 and 2020, the Group has a net cash position.

3.3 Fair Value Estimation

The table below analyses the Group's financial instruments carried at fair value as of December 31, 2021 and 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2021				
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares of associates	–	–	1,254,149	1,254,149
– Investments in unlisted entities	–	–	12,000	12,000
– Investments in a listed entity	14,047	–	–	14,047
– Investments in movies and TV series	–	–	29,834	29,834
	14,047	–	1,295,983	1,310,030
Financial asset at fair value through other comprehensive income				
– Investment in a listed entity	14,073	–	–	14,073
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portion)	–	–	1,151,854	1,151,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2020				
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares of associates	–	–	890,444	890,444
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	12,874	–	–	12,874
	12,874	–	902,444	915,318
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portion)	–	–	1,396,102	1,396,102

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the year ended December 31, 2021 and 2020.

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no changes in valuation techniques during the years ended December 31, 2021 and 2020.

The changes in level 3 instruments for the years ended December 31, 2021 and 2020 are presented in the following table:

	Financial assets		**Financial liabilities**	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Opening balance	**902,444**	441,842	**1,396,102**	1,656,613
Additions	**377,616**	471,907	**–**	220,358
Compensation cost	**–**	–	**3,650**	–
Changes in fair value recognised as other gains/(losses), net	**48,827**	(11,624)	**158,332**	(858,870)
Changes in fair value recognised as revenues	**(12,238)**	–	**–**	–
Disposal	**(4,758)**	–	**–**	–
Modification of contingent consideration payable	**–**	–	**–**	1,463,431
Settlement of contingent consideration payable	**–**	–	**(406,230)**	(1,118,878)
Currency translation differences	**(15,908)**	319	**–**	33,448
Closing balance	**1,295,983**	902,444	**1,151,854**	1,396,102
Include unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period	**38,660**	(11,624)	**158,332**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

Valuation inputs and relationships to fair value

The Group has engaged independent external valuers for performing the fair value valuation of investments in redeemable shares of associates and contingent consideration payables as of December 31, 2021 and 2020.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value As of December 31,		Significant Unobservable inputs	Range of inputs As of December 31,		Relationship of unobservable inputs to fair value
	2021 RMB'000	2020 RMB'000		**2021 RMB'000**	2020 RMB'000	
Asset						
Investments in redeemable shares of associates	**1,237,043**	418,537	IPO probability	**40%-50%**	40%-50%	The fair value depends on rights of redeemable shares held by the Group.
Liabilities						
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media	**1,147,186**	1,396,102	Note a	**Net profit growth rate: 10%**	Net profit growth rate: 15%	The higher the net profit growth rate, the higher the fair value.
				Expected volatility: 30%	Expected volatility: 35%	The higher the expected volatility, the lower the fair value.

Note:

(a) The significant unobservable inputs of contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media include the growth rate and volatility of net profit of New Classics Media used for reflecting the associated risk of the payment to arrive the present value of consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3 Financial Risk Management (Continued)

3.3 Fair Value Estimation (Continued)

Sensitivity analysis

For the fair value of the Group's level 3 instruments, namely the investment in redeemable shares of associates, reasonably possible changes at December 31, 2021 and 2020 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	As of December 31,			
	2021		2020	
	Changes in fair value (in RMB'000)			
	Increase	Decrease	Increase	Decrease
Investments in redeemable shares of associates				
– IPO probability (5% movement)	11,417	7,383	3,700	(10,400)
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media				
– Net profit growth rate (5% movement)	36,351	(45,210)	73,057	(97,333)
– Expected volatility (5% movement)	(36,662)	40,904	(65,585)	66,441

The carrying amounts of the Group's other financial assets including cash and cash equivalents, current term deposit, trade and notes receivables, other receivables, and the Group's financial liabilities, including trade payables, current lease liabilities, other payables and accruals approximate to their fair values due to their short maturities. The carrying amounts of the Group's short-term and long-term borrowings, non-current lease liabilities and long-term payables approximate to their fair value as the interest rates they bear reflect the current market yield for comparable borrowings.

4 Critical Accounting Estimates and Judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Recoverability of Non-financial Assets

Television series and film rights

The management of the Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- An asset's market value has declined significantly more than would be expected because of the passage of time or normal use; and

- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a television series-by-television series and film-by-film basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

The key assumptions made by the management used in the cash flow forecasts mainly include license agreements entered or to be entered into by the Group, historical trend of similar products and discount rate. Discount rate adopted when calculating discounted cash flows, which reflects market assessments of time value and the specific risks relating to the industry that the Group operates. The Group's estimation of recoverable amount of television series and film rights reflects the management's best estimate of future cash flows expected to be generated from the television series and film rights.

4 Critical Accounting Estimates and Judgements (Continued)

(a) Recoverability of Non-financial Assets (Continued)

Goodwill and other non-financial assets

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income/(loss).

(b) Fair Value Measurement of FVPL

The fair value assessment of FVPL that are measured at level 3 fair value hierarchy requires significant estimates, which include the IPO probability, revenue growth rate, expected volatility, appropriate discount rates, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

With respect to the valuation of the contingent consideration payable that arising from the Group's acquisition of New Classics Media, the Group uses its judgement to select an appropriate method and make assumptions, including the growth rate and volatility of net profit of New Classics Media, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

(c) Share-based Compensation Arrangements

As mentioned in Note 2.20(c), the Group has granted share options to its directors and employees. The directors have adopted the binomial model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the binomial model (Note 34).

4 Critical Accounting Estimates and Judgements (Continued)

(c) Share-based Compensation Arrangements (Continued)

The fair value of share options granted to directors and employees using the binomial model was approximately HKD222.9 million (equivalent to approximately RMB185.5 million) in 2021. The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income/(loss).

(d) Useful Lives and Amortisation Charges of Intangible Assets

The Group's management determines the estimated useful lives and related amortisation charges for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortisation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore amortisation expense in future periods. The Group completed a re-assessment of the useful lives of its copyrights of certain contents, and determined that the estimated useful lives of copyrights of certain contents should be shortened from 3 to 5 years to 18 months to 3 years with effective from January 1, 2021. The effect of such change in accounting estimate is disclosed in Note 17. After the change of accounting estimate, copyrights of contents are amortised on a straight-line basis over their estimated useful economic lives of 18 months to 5 years (2020: 3 to 5 years).

(e) Income Taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(f) Expected Credit Loss for Receivables

The loss allowances for receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

5 Segment Information

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

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

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

- Online business (including online paid reading, online advertising and game publishing); and

- Intellectual property operations and others (including licensing and distribution of film and television properties, copyrights licensing, sales of adaptation rights and scripts, sales of physical books, in-house online games operations, etc.).

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

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

There were no material inter-segment sales during the years ended December 31, 2021 and 2020. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated statement of comprehensive income/(loss).

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

5 Segment Information (Continued)

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

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended December 31, 2021 and 2020 is as follows:

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

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

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

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

As of December 31, 2021 and 2020, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

6 Revenues

6.1 Disaggregation of Revenue from Contracts with Customers

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

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

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

6 Revenues (Continued)

6.2 Liabilities Related to Contracts with Customers

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

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

Deferred revenue mainly comprises contract liabilities in relation to 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2021 and 2020; 2) the balance of deferred copyrights licensing income to be amortised over remaining sub-licensing period, and the portion to be recognised over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position; and 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, or advertising services have not been provided, or animations have not been delivered to the online platforms.

(a) Revenue recognised in relation to deferred revenue

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	**595,189**	300,091
Intellectual property operations and others	**282,805**	305,088
	877,994	605,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

7 Expenses by Nature

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Promotion and advertising expenses (Note a)	**2,176,027**	2,016,483
Content costs (Note b)	**1,774,189**	1,464,506
Platform distribution costs (Note c)	**1,151,009**	1,194,357
Employee benefits expenses (Note (d) and Note 8)	**1,124,666**	701,577
Production costs of television series and film rights	**426,014**	862,629
Amortisation of intangible assets (Note 17)	**395,462**	215,948
Payment handling costs	**315,833**	323,816
Game development outsourcing costs	**191,931**	97,263
Depreciation of right-of-use assets (Note 16)	**80,254**	62,268
Bandwidth and server custody fees	**72,687**	75,884
Professional service fees	**69,517**	85,731
Cost of physical inventories sold	**46,872**	49,394
Travelling, entertainment and general office expenses	**46,862**	40,705
Impairment loss on prepayments to directors, actors and writers	**28,028**	32,000
Provision for physical inventory obsolescence	**25,373**	45,223
Depreciation of property, plant and equipment (Note 15)	**19,085**	23,703
Tax surcharge expenses	**16,208**	10,435
Auditors' remuneration		
– Audit services	**11,030**	10,003
– Non-audit services	**1,490**	1,292
Logistic expenses	**5,482**	5,552
Impairment loss on television series and film rights	**4,684**	249,255
Expense relating to short-term leases and low value leases (Note 16)	**3,301**	4,242
Others	**107,456**	91,312
	8,093,460	7,663,578

Notes:

(a) Promotion and advertising expenses include incremental costs of obtaining sales contracts: 1) pre and post installation promotion expenses that the Group paid to mobile devices manufacturers for its operations of unbranded white-label products; and 2) the Group paid to various official accounts on social networking app for the operations of the Group's online reading content. These expenses are recorded as "selling and marketing expenses" in the consolidated statement of comprehensive income/(loss).

(b) Content costs mainly consist of 1) other than the initial acquisition of the copyright from writers, the Group also pays a certain percentage of the revenues earned on such content posted through its self-owned, self-operated and third party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements; 2) the direct costs associated with the adaptation rights and scripts that sold by the Group; and 3) the impairment loss on adaptation rights and scripts. These content costs are recorded as "cost of revenues" in the consolidated statement of comprehensive income/(loss).

(c) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.

(d) Research and development expenses (being included in the Group's general and administrative expenses) for the year ended December 31, 2021 was approximately RMB721,197,000 (2020: RMB550,302,000) which mainly consisted of employee benefits expenses.

8 Employee Benefits Expenses

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**662,377**	570,155
Other social security costs, housing benefits and other employee benefits	**135,470**	109,179
Pension costs – defined contribution plans	**59,365**	11,642
Share-based compensation expenses (Note 34)	**188,138**	120,204
Other compensation costs (Note 31)	**56,936**	(109,603)
Others	**22,380**	–
	1,124,666	701,577

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended December 31, 2021 and 2020 are listed below:

	Percentage
Pension insurance	14.0% – 20.0%
Medical insurance	5.2% – 10.5%
Unemployment insurance	0.5% – 0.7%
Housing fund	8.0% – 12.0%

During the year ended December 31, 2021 and 2020, no contribution to pension plans was forfeited (by the Group on behalf of its employees who leave the pension plan prior to vesting fully in such contribution) and used by the Group to reduce the existing level of contribution. As of December 31, 2021 and 2020, there was no forfeited contribution available for reducing the level of contribution to pension plans in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

8 Employee Benefits Expenses (Continued)

(a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group include three directors during the year ended December 31, 2021 (2020: nil), and their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the five (2020: five) individuals during the year ended December 31, 2021, are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Salaries and wages	**8,033**	6,958
Discretionary bonuses	**4,452**	5,399
Other social security costs, housing benefits and other employee benefits	**318**	300
Pension costs – defined contribution plans	**264**	20
Share-based compensation expenses	**54,037**	21,591
Other compensation costs	**53,286**	–
	120,390	34,268

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2021	2020
Emoluments bands:		
HKD20,000,001 to HKD80,000,000	**3***	–
HKD10,000,001 to HKD20,000,000	**1**	1
HKD5,000,001 to HKD10,000,000	**1**	4
HKD4,000,001 to HKD5,000,000	**–**	–
HKD3,000,001 to HKD4,000,000	**–**	–
HKD2,000,001 to HKD3,000,000	**–**	–
HKD1,000,001 to HKD2,000,000	**–**	–
	5	5

* Including one employee (2020: nil) of a subsidiary of the Group and his/her emolument amounts are mainly comprised of charges related to the contingent compensation arrangement.

During the years ended December 31, 2021 and 2020, no director or the five highest paid individuals received any emoluments from the Group as an inducement to join or leave the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

8 Employee Benefits Expenses (Continued)

(b) Benefits and Interests of Directors

(i) Directors' and the chief executive's emoluments

The remuneration of each director for the year ended December 31, 2021 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Pension costs – defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses* RMB'000	Other compensation costs RMB'000	Total RMB'000
Executive directors								
– Cheng Wu (1)	2,040	–	–	–	–	26,729	–	28,769
– Hou Xiaonan (1)	1,320	–	–	–	–	19,062	–	20,382
– Wu Wenhui (2)	–	–	–	–	–	–	–	–
Non-executive directors								
– James Gordon Mitchell (4)	–	–	–	–	–	–	–	–
– Cao Huayi (5)**	–	1,200	500	98	132	–	53,286	55,216
– Cheng Yun Ming Matthew (7)	–	–	–	–	–	–	–	–
– Wu Wenhui (2)	–	–	–	–	–	–	971	971
– Zou Zhengyu (9)	–	–	–	–	–	–	–	–
Independent non-executive directors								
– Yu Chor Woon Carol (8)	572	–	409	–	–	–	–	981
– Leung Sau Ting Miranda (8)	572	–	540	–	–	–	–	1,112
– Liu Junmin (8)	572	–	409	–	–	–	–	981
	5,076	1,200	1,858	98	132	45,791	54,257	108,412

* During the year ended December 31, 2021, the amount of share-based compensation expense mainly represents the share options granted to two directors of the Company, among which 25% can be exercised immediately and the remaining tranches will become exercisable in each subsequent year. Each share option shall entitle the holder to subscribe for one share upon exercise of such share option at an exercise price of HKD82.85 per share.

** During the year ended December 31, 2021, Cao Huayi's other compensation costs mainly comprised of charges related to the contingent compensation arrangement.

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For the year ended December 31, 2021

8 Employee Benefits Expenses (Continued)

(b) Benefits and Interests of Directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

The remuneration of each director for the year ended December 31, 2020 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Pension costs — defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Other compensation costs RMB'000	Total RMB'000
Executive directors								
– Cheng Wu (1)	850	–	–	–	–	1,696	–	2,546
– Hou Xiaonan (1)	550	–	–	–	–	848	–	1,398
– Wu Wenhui (2)	–	1,020	–	4	23	–	–	1,047
– Liang Xiaodong (3)	–	–	–	–	–	–	–	–
Non-executive directors								
– James Gordon Mitchell (4)	–	–	–	–	–	–	–	–
– Cao Huayi (5)	–	606	500	4	70	–	(73,881)	(72,701)
– Chen Fei (6)	–	–	–	–	–	–	–	–
– Cheng Yun Ming Matthew (7)	–	–	–	–	–	–	–	–
– Wu Wenhui (2)	–	–	–	–	–	–	1,527	1,527
Independent non-executive directors								
– Yu Chor Woon Carol (8)	505	–	421	–	–	–	–	926
– Leung Sau Ting Miranda (8)	505	–	555	–	–	–	–	1,060
– Liu Junmin (8)	505	–	421	–	–	–	–	926
	2,915	1,626	1,897	8	93	2,544	(72,354)	(63,271)

8 Employee Benefits Expenses (Continued)

(b) Benefits and Interests of Directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

Notes:

(1) Appointed as a director of the Company on April 27, 2020.

(2) Appointed as an executive director of the Company on November 6, 2014, re-designated as a non-executive director on April 27, 2020 and retired on April 26, 2021.

(3) Appointed as a director of the Company on November 6, 2014 and resigned on April 27, 2020.

(4) Appointed as a director of the Company on June 29, 2017.

(5) Appointed as a director of the Company on May 17, 2019.

(6) Appointed as a director of the Company on May 17, 2019 and resigned on April 27, 2020.

(7) Appointed as a director of the Company on November 22, 2019.

(8) Appointed as a director of the Company on October 18, 2017.

(9) Appointed as a director of the Company on May 24, 2021.

(ii) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

9 Other Gains/(Losses), Net

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Gain on sale of a held for sale asset (Note 38(c))	**1,076,817**	–
Gain on disposal of investments in associates (Note 18(a) (iii))	**211,445**	–
Gain on disposals of intangible assets (Note a)	**133,962**	–
Government subsidies	**110,652**	104,305
Gain on copyright infringements	**51,108**	12,866
Fair value gain/(loss) of investments in redeemable shares of associates (Note 20)	**48,827**	(11,624)
Gain/(loss) on disposal of film rights and a television series (Note b)	**26,942**	(9,573)
Fair value gain/(loss) of investments in listed entities (Note 20)	**1,512**	(1,305)
Gain on disposal of financial assets at fair value through profit or loss	**39**	–
Loss from modification of contingent consideration payable (Note 31)	**–**	(1,463,431)
Impairment loss of goodwill (Note 17)	**–**	(4,015,854)
Loss on liquidation of subsidiaries	**(3,590)**	–
Expenses related to the investment in an investee company	**(9,072)**	–
Impairment provision for investments in associates and a joint venture (Note 18)	**(12,064)**	(251,960)
Impairment loss of other intangible assets (Note 17)	**(25,776)**	(537,086)
Fair value (loss)/gain on contingent consideration payable (Note 31)	**(158,332)**	858,870
Others, net	**(4,387)**	(8,111)
	1,448,083	(5,322,903)

Notes:

(a) Gain on disposals of intangible assets mainly consists of gain on certain intangible assets as part of consideration in exchange of investment in redeemable convertible preferred shares. In December 2020, the Group invested in redeemable convertible preferred shares of a third-party company engaged in online business. In addition to cash, the total consideration also included an exchange of certain intangible assets of the Group with a fair value of USD20,000,000 (equivalent to approximately RMB124,033,000). As of December 31, 2020, the aforementioned assets were not legally transferred, and therefore recognised as "other payables" in the consolidated statement of financial position. The aforementioned assets were legally transferred in February 2021, and the difference between the carrying value of the aforementioned assets and the fair value of approximately RMB124,033,000 was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss).

(b) During the year ended December 31, 2021, the Group disposed partial of its economic benefits of a film right (2020: a television series), and the difference between the carrying value of approximately RMB47,586,000 (2020: RMB151,546,000) and cash consideration of approximately RMB74,528,000 (2020: RMB141,973,000) was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss).

10 Finance Costs

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Interest expenses on borrowings	**55,407**	64,195
Interest expenses on lease liabilities (Note 16)	**7,913**	3,483
Foreign exchange loss, net	**5,443**	1,107
	68,763	68,785

11 Interest Income

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Interest income on bank deposits	**125,353**	116,315

12 Income Tax (Expense)/Benefit

(i) Cayman Islands Corporate Income Tax

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

(ii) Hong Kong Profits Tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

12 Income Tax (Expense)/Benefit (Continued)

(iii) PRC Corporate Income Tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the year ended December 31, 2021 (2020: 25%).

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2021 and 2020 according to the applicable CIT Law.

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

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

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current tax	**581,754**	94,255
Deferred income tax (Note 22)	**(121,613)**	(132,778)
Income tax expense/(benefit)	**460,141**	(38,523)

12 Income Tax (Expense)/Benefit (Continued)

(iii) PRC Corporate Income Tax ("CIT")

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

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

13 Earnings/(Loss) per Share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

13 Earnings/(Loss) per Share (Continued)

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

The impact of potential ordinary shares to be issued by an associate of the Group into ordinary shares of the associate is included in the computation of earnings/(loss) per share for the year ended December 31, 2021 and 2020 as the impact would be dilutive.

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

For the year ended December 31, 2020, the potential ordinary shares of RSU granted to employees were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive.

	Year ended December 31,	
	2021	2020
Net profit/(loss) attributable to the equity holders of the Company (RMB'000)	**1,846,609**	(4,483,869)
Impact of an associate's potential ordinary shares (RMB'000)	**(360)**	(5,448)
Net profit/(loss) used to determine diluted profit/(loss) per share (RMB'000)	**1,846,249**	(4,489,317)
Weighted average number of ordinary shares in issue (thousand)	**1,007,158**	999,997
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media (thousand)	**3,021**	–
Adjustments for share-based compensation – RSUs (thousand)	**6,784**	–
Weighted average number of ordinary shares for diluted profit/(loss) per share (thousand)	**1,016,963**	999,997
Diluted profit/(loss) per share (expressed in RMB per share)	**1.82**	(4.49)

14 Dividends

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

15 Property, Plant and Equipment

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At December 31, 2021						
Opening net book amount as of January 1, 2021	**23,837**	**10,799**	**3,360**	**1,461**	**133**	**39,590**
Additions	**14,172**	**1,105**	**749**	**1,346**	**7,822**	**25,194**
Transfer from construction in progress	**–**	**2,204**	**–**	**–**	**(2,204)**	**–**
Disposals	**(367)**	**(150)**	**(31)**	**(22)**	**–**	**(570)**
Depreciation	**(11,031)**	**(6,197)**	**(986)**	**(871)**	**–**	**(19,085)**
Currency translation differences	**(5)**	**(1)**	**–**	**–**	**–**	**(6)**
Closing net book amount as of December 31, 2021	**26,606**	**7,760**	**3,092**	**1,914**	**5,751**	**45,123**
At December 31, 2020						
Opening net book amount as of January 1, 2020	21,441	12,768	2,896	2,009	2,407	41,521
Additions	11,764	1,302	2,156	217	6,982	22,421
Transfer from construction in progress	–	9,256	–	–	(9,256)	–
Disposals	(244)	(291)	(73)	(24)	–	(632)
Depreciation	(9,119)	(12,224)	(1,619)	(741)	–	(23,703)
Currency translation differences	(5)	(12)	–	–	–	(17)
Closing net book amount as of December 31, 2020	23,837	10,799	3,360	1,461	133	39,590

During the year ended December 31, 2021, depreciation expense of approximately RMB758,000(2020: RMB1,477,000), RMB1,158,000(2020: RMB1,645,000) and RMB17,169,000(2020: RMB20,581,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

16 Leases

This note provides information for leases where the Group is a lessee.

(a) Amounts Recognised in the Consolidated Statement of Financial Position

The consolidated statement of financial position shows the following amounts relating to leases:

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Right-of-use assets		
Properties	**281,451**	83,085
Vehicle	**14**	7
Equipment	**–**	183
	281,465	83,275
Lease liabilities		
Current	**72,573**	50,387
Non-current	**201,850**	34,830
	274,423	85,217

Additions to the right-of-use assets during the year ended December 31, 2021 were RMB280,031,365 (2020: RMB66,296,000).

16 Leases (Continued)

(b) Amounts Recognised in the Consolidated Statement of Comprehensive Income/(Loss)

The consolidated statement of comprehensive income/(loss) shows the following amounts relating to leases:

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Depreciation charge of right-of-use assets		
Properties	**(80,078)**	(61,913)
Vehicle	**(169)**	(97)
Equipment	**(7)**	(258)
	(80,254)	(62,268)
Interest expense (included in finance costs)	**7,913**	3,483
Expense relating to short-term leases (included in selling and marketing expenses and general and administrative expenses)	**3,251**	4,211
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	**50**	31
	11,214	7,725

For the year ended December 31, 2021, the total cash outflow for leases was approximately RMB96,134,555 (2020: RMB61,363,000).

(c) The Group's Leasing Activities and How These are Accounted for

The Group leases various properties, equipment and vehicle. Rental contracts are typically made for fixed periods of no longer than 8 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

17 Intangible Assets

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

Note:

(a) The Group completed a re-assessment of the useful lives of its copyrights of certain contents, and determined that the estimated useful lives of copyrights of certain contents should be shortened from 3 to 5 years to 18 months to 3 years with effective from January 1, 2021, which was mainly due to the evolving writers and contents on the platforms. It was accounted for prospectively as a change in accounting estimate and as a result, the amortisation for year ended December 31, 2021 has been increased by approximately RMB135,867,000.

	Goodwill RMB'000	Non-compete agreements RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
At December 31, 2020								
Opening net book amount as of January 1, 2020	10,653,325	17,283	1,105,697	349,847	36,666	3,670	2,311	12,168,799
Additions (Note a)	–	38,840	–	237,148	–	5,537	–	281,525
Amortisation	–	(13,100)	(23,951)	(160,616)	(14,667)	(3,512)	(102)	(215,948)
Impairment provision	(4,015,854)	–	(483,930)	(53,121)	–	(35)	–	(4,552,940)
Currency translation differences	–	–	–	(5,373)	–	–	–	(5,373)
Closing net book amount as of December 31, 2020	6,637,471	43,023	597,816	367,885	21,999	5,660	2,209	7,676,063

Note:

(a) On April 27, 2020, certain members of the senior management of the Group have tendered their resignation to the Group. The senior management entered into several contracts associated with his resignation, which contained non-compete clauses covering a period ranging from two to five years. Such non-compete agreements were measured at fair value and recognised as "intangible assets" in the consolidated statement of financial position. The aforementioned intangible assets of approximately RMB38,840,000 are amortised over their respective contractual period by using the straight-line method. As of December 31, 2021, approximately RMB16,894,000 is expected to be paid, among which approximately RMB9,119,000 will be payable after December 31, 2022, and is recognised as "long-term payables" in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

17 Intangible Assets (Continued)

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

As of December 31, 2021, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation ("Cloudary") in 2014, the acquisition of the entities operating online literature business through the brand of "Chuangshi" ("Chuangshi") in 2014 and the acquisition of 100% equity interests in New Classics Media in 2018 (or referred to as "acquired TV and film business" hereafter).

(a) Impairment Tests for Goodwill

As of December 31, 2021 and 2020, goodwill is allocated to the Group's CGUs identified as follows:

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

Online business

Impairment review on the goodwill relating to online business has been conducted by the management as of December 31, 2021 and 2020 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

As of December 31, 2021 and 2020, the recoverable amount of goodwill was determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a ten-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to online business was recognised as of December 31, 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 Intangible Assets (Continued)

(a) Impairment Tests for Goodwill (Continued)

Acquired TV and film business

Impairment review on the goodwill relating to acquired TV and film business has been conducted by the management as of December 31, 2021 and 2020. For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the FVLCD and value-in-use calculation.

As of December 31, 2021 and 2020, the value-in-use calculation use cash flow projections based on business projection for the purpose of impairment reviews covering a five-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business projection and market developments.

The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to acquired TV and film business was recognised as of December 31, 2021 (for the year ended December 31, 2020: an impairment provision of approximately RMB4,015,854,000).

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:

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

2020	Online business	Acquired TV and film business
Gross margin (%)	From 48.7% to 61.4%	From 42.7% to 45.0%
Annual growth rate (%)	From 9.8% to 18.6%	From 0.2% to 21.7%
Pre-tax discount rate (%)	22.5%	17.4%

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For the year ended December 31, 2021

17 Intangible Assets (Continued)

(a) Impairment Tests for Goodwill (Continued)

Impact of possible changes in key assumptions (Continued)

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

If the budgeted revenue growth rate for each year during the forecast period used in online business value-in-use calculation had been 5% lower than our management's estimates on December 31, 2021 and 2020, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB1,337 million and RMB4,242 million, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than our management's estimates on December 31, 2021 and 2020, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB1,637 million and RMB4,455 million, respectively.

If the budgeted revenue growth rate for each year during the forecast period used in the acquired TV and film business value-in-use calculation had been 5% lower than our management's estimates on December 31, 2021 and 2020, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB890 million and RMB645 million, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than our management's estimates on December 31, 2021 and 2020, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB749 million and RMB371 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

17 Intangible Assets (Continued)

(b) Impairment Tests for Trademarks

Impairment review on the trademarks with indefinite useful life arose from the acquisition of New Classics Media has been conducted by the management as of December 31, 2021 and 2020 according to IAS 36 "Impairment of assets". For the purposes of impairment assessment, the recoverable amount of the trademarks with indefinite life is determined based on the higher amount of the FVLCD and value-in-use calculations. As of December 31, 2021 and 2020, the recoverable amount of trademarks is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business projection for the purposes of impairment reviews, which were the same as that for the goodwill impairment tests. The discount rate adopted by the Group when calculating discounted cash flows was also the same as that for the goodwill impairment tests. As of December 31, 2021, no impairment provision has been recognised by the Group (2020: RMB389,816,000) against the carrying amount of trademark relating to acquisition of New Classics Media. The impairment provision in 2020 was mainly resulted from revisions of financial/business outlook and changes in the market environment of the underlying business. Sensitivity analysis is performed by management as of December 31, 2021 and 2020, and the estimated changes in recoverable amount is considered to be immaterial.

During the year ended December 31, 2020, indicators of trademarks impairment arose following management's decision to adjust the Group's business strategy regarding some of the Group's self-owned online reading platforms. Accordingly, impairment review on the trademarks arising from the acquisition of Cloudary has been conducted by the management as of December 31, 2020 according to IAS 36 "Impairment of assets". As of December 31, 2020, the recoverable amount of the trademarks is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB94,114,000 against the carrying amount of trademarks relating to acquisition of Cloudary. Sensitivity analysis is performed by management as of December 31, 2020, and the estimated changes in recoverable amount is considered to be immaterial. During the year ended December 31, 2021, no further indicator of impairment on such trademarks has been identified and no impairment has been recognised.

(c) Impairment Tests for Copyrights

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

17 Intangible Assets (Continued)

(c) Impairment Tests for Copyrights (Continued)

Impairment review on the copyrights that owned by a subsidiary of the Group, which is mainly engaged in physical book publishing business, has been conducted by the management as of December 31, 2020 according to IAS 36 "Impairment of assets". As of December 31, 2020, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB53,121,000 against the carrying amount of such copyrights. Sensitivity analysis is performed by management as of December 31, 2020 and the estimated changes in recoverable amount is considered to be immaterial. During the year ended December 31, 2021, no impairment on copyrights in physical book publishing business has been recognised based on the results of the impairment assessment.

18 Investments in Associates and Joint Ventures

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

(a) Investments in Associates

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

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For the year ended December 31, 2021

18 Investments in Associates and Joint Ventures (Continued)

(a) Investments in Associates (Continued)

Notes:

(i) During the year ended December 31, 2021, the Group's additions to investments in associates mainly comprised the following:

(1) a new investment in a listed company engaged in provision of mobile reading and intellectual property operations at a total consideration of approximately RMB299,282,000. As of December 31, 2021 Group's equity interest in this associate was 5%. The Group has significant influence, but not control over the investee company's management, since the Group has a representation seat on the investee company's board of directors, which enables the Group to participate in the financial and operation decision; and

(2) a new investment in a company engaged in film distribution and brokerage business in the PRC at a total consideration of approximately RMB48,000,000. As of December 31, 2021 Group's equity interest in this associate was 10%. The Group has significant influence, but not control over the investee company's management, since the Group has a representation seat on the investee company's board of directors, which enables the Group to participate in the financial and operation decision.

(3) In 2019, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in Thailand, to subscribe for its ordinary shares and preferred shares. In 2021, the Group converted its ordinary and preferred shares in this investee company to the parent company of this investee, for the purpose of the investee's recapitalization. As of December 31, 2021, the Group's equity interest in this investee was approximately 12.57% and 17.34% on an outstanding and fully converted basis. The investment in ordinary shares of the above mentioned investee is accounted for as "investment in associates" while the investment in its preferred shares is accounted for as "FVPL".

(ii) Both external and internal sources of information of associates are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

The Group made an aggregate impairment provision of approximately RMB9,135,000 against the carrying amounts of certain investments in associates during the year ended December 31, 2021 (2020: RMB214,837,000). The impairment losses mainly resulted from revisions of financial and business outlook of the associates and changes in the market environment of the underlying business.

(iii) During the year ended December 31, 2021, the Group's disposal of investments in associates mainly comprised the following:

In October 2021, the Group disposed partial of its equity interests in a certain associate, which is mainly engaged in online reading service in South Korea. The difference between the carrying value of approximately RMB88,989,000 and total consideration was recognised as "other gains/(losses), net" of approximately RMB240,227,000 in the consolidated statement of comprehensive income/(loss). Meanwhile, the currency translation difference of approximately RMB23,694,000 was also transferred from "other comprehensive income" to "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss) due to the partial disposal. After the transaction, the Group held 5.05% equity interest in it.

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

In the opinion of the directors of the Company, none of the associates is material to the Group as of December 31, 2021.

There are no contingent liabilities relating to the Group's interest in the associates.

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For the year ended December 31, 2021

18 Investments in Associates and Joint Ventures (Continued)

(b) Investments in Joint Ventures

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**350,370**	493,608
Additions (Note i)	**35,000**	–
Dividend from a joint venture	**(132,353)**	(107,293)
Impairment provision (Note ii)	**(2,929)**	(37,123)
Share of net profit of joint ventures	**191,927**	1,731
Share of other comprehensive income of joint ventures	**22**	956
Currency translation differences	**(259)**	(1,509)
At the end of the year	**441,778**	350,370

Notes:

(i) During the year ended December 31, 2021, the Group's additions to investments in joint ventures mainly comprised a new investment engaged in animation production. As of December 31, 2021, the Group's equity interest in this joint venture was 43.7%.

(ii) Both external and internal sources of information of joint ventures are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of FVLCD and value in use.

The Group made an impairment provision of approximately RMB2,929,000 against the carrying amount of a certain investment in a joint venture during the year ended December 31, 2021 (2020: impairment provision of investments in joint ventures of approximately RMB37,123,000). The impairment losses mainly resulted from revisions of financial and business outlook of the joint ventures and changes in the market environment of the underlying business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

18 Investments in Associates and Joint Ventures (Continued)

(b) Investments in Joint Ventures (Continued)

Set out below is the major joint venture of the Group as of December 31, 2021. The joint venture as listed below has share capital consisting solely of ordinary shares, which held directly by the Group; the country of incorporation or registration is also its principal place of business.

Name	Date of incorporation	Particulars of issued shares held (RMB'000)	Place of incorporation	Percentage of ownership interest attributable to the Group As of December 31, 2021	2020	Principal activities
Beijing Jinjiang Networking Technology Co., Ltd. ("Jinjiang")	March 13, 2006	5,550	PRC	**50.00%**	50.00%	Online reading service

Summarised financial information of the Group's major joint ventures

Set out below is the summarised financial information for Jinjiang, which is accounted for using the equity method.

	Jinjiang	
	December 31, 2021 RMB'000	December 31, 2020 RMB'000
Current assets	**1,013,536**	831,530
Non-current assets	**2,358**	1,413
Current liabilities	**285,860**	255,808
Revenue	**1,249,681**	1,036,244
Profit for the year	**417,630**	336,414

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18 Investments in Associates and Joint Ventures (Continued)

(b) Investments in Joint Ventures (Continued)

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of its interest in the joint venture.

	Jinjiang	
	December 31, 2021 RMB'000	December 31, 2020 RMB'000
Net assets at the beginning of the year	**577,135**	455,307
Profit for the year	**417,630**	336,414
Dividends	**(264,731)**	(214,586)
Net assets at the end of the year	**730,034**	577,135
Interest in joint ventures	**50.00%**	50.00%
Goodwill	**2,447**	2,447
Carrying value	**367,464**	291,015

As of December 31, 2021, the carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method were approximately RMB74,314,000 (2020: RMB59,355,000).

There are no contingent liabilities relating to the Group's interest in the joint ventures.

(c) Joint Operations

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

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For the year ended December 31, 2021

19 Financial Instruments by Category

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value		
– FVPL (Note 20)	**1,310,030**	915,318
– FVOCI (Note 21)	**14,073**	–
Financial assets at amortised cost:		
– Trade and notes receivables (Note 26)	**2,747,240**	3,296,287
– Deposits and other assets (current and non-current portions) (Note 23)	**518,644**	287,752
– Term deposits (Note 27)	**2,678,031**	3,408,679
– Cash and cash equivalents (Note 27)	**4,528,412**	2,848,231
	11,796,430	10,756,267

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 31)	**1,151,854**	1,396,102
Financial liabilities at amortised cost:		
– Trade payables (Note 29)	**1,127,368**	1,039,653
– Lease liabilities (current and non-current portions) (Note 16)	**274,423**	85,217
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable) (Note 30)	**830,611**	879,199
– Borrowings (current and non-current portions) (Note 28)	**1,175,318**	1,245,938
– Long-term payables (Note 17 (a))	**9,119**	16,894
	4,568,693	4,663,003

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For the year ended December 31, 2021

20 Financial Assets at Fair Value through Profit or Loss

(a) Classification of Financial Assets at Fair Value through Profit or Loss

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

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

Financial assets measured at FVPL include the following:

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

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**915,318**	457,185
Additions (Note a)	**377,616**	471,907
Changes in fair value recognised as other gains/ (losses), net (Note 9)	**50,339**	(12,929)
Changes in fair value recognised as revenues	**(12,238)**	–
Disposal (Note b)	**(4,758)**	–
Currency translation differences	**(16,247)**	(845)
At the end of the year	**1,310,030**	915,318

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For the year ended December 31, 2021

20 Financial Assets at Fair Value through Profit or Loss (Continued)

(a) Classification of Financial Assets at Fair Value through Profit or Loss (Continued)

Notes:

(a) In June 2021, the Group invested in redeemable convertible preferred shares of a third-party company that was principally engaged in the online interactive reading business at a purchase consideration of USD18,000,000 (equivalent to approximately RMB115,326,000), which represented 5% equity interest of the investee on an outstanding and fully converted basis.

In January 2021, the Group made an additional investment in certain redeemable convertible preferred shares of a private company that was engaged in provision of online publishing service at a cash consideration of approximately USD25,000,000 (equivalent to approximately RMB161,775,000). After the transaction, the Group held 2.76% equity interest of the investee on an outstanding and fully converted basis.

(b) During the year ended December 31, 2021, the Group disposed of partially its investments in movies and TV series with carrying value of approximately RMB4,758,000 at a cash consideration of RMB4,797,000.

21 Financial Asset At Fair value through Other Comprehensive Income

FVOCI include the following:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Included in non-current assets:		
Investment in a listed entity	**14,073**	–

Movement of FVOCI is analysed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**–**	–
Additions (Note a)	**33,050**	–
Changes in fair value	**(21,897)**	–
Currency translation difference	**2,920**	–
At the end of the year	**14,073**	–

Note:

(a) In March 2021, the Group made an investment in 48,000 ordinary shares of an online platform at a total consideration of approximately HKD39,000,000 (equivalent to approximately RMB33,050,000). The investment is not held for trading and has been elected as and measured at FVOCI.

22 Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered after more than 12 months	**118,949**	26,840
– to be recovered within 12 months	**152,866**	161,679
	271,815	188,519
Deferred tax liabilities:		
– to be recovered after more than 12 months	**(144,200)**	(150,932)
– to be recovered within 12 months	**(5,086)**	(36,671)
	(149,286)	(187,603)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

22 Deferred Income Taxes (Continued)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Provision for prepayment, inventory obsolescence, television series and film rights and doubtful receivables RMB'000	Tax losses RMB'000	Intangible assets acquired in business combination RMB'000	Provision for investments in associates and a joint venture RMB'000	Accrued expense, lease and accelerated amortisation of intangible assets RMB'000	Deemed disposal of an investee company RMB'000	Other temporary differences RMB'000	Total RMB'000
As of January 1, 2020	60,446	73,427	(284,325)	–	3,553	(29,840)	44,877	(131,862)
Recognised in the profit or loss	32,040	(61,319)	128,077	38,742	12,499	–	(17,261)	132,778
As of December 31, 2020	92,486	12,108	(156,248)	38,742	16,052	(29,840)	27,616	916
Recognised in the profit or loss	**13,833**	**(5,314)**	**9,618**	**3,870**	**63,055**	**29,840**	**6,711**	**121,613**
As of December 31, 2021	**106,319**	**6,794**	**(146,630)**	**42,612**	**79,107**	**–**	**34,327**	**122,529**

Deferred income tax assets are recognised for tax losses carried forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As of December 31, 2021, the Group did not recognise deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB151,643,000 (December 31, 2020: RMB148,214,000). These tax losses will expire from 2022 to 2026.

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For the year ended December 31, 2021

23 Prepayments, Deposits and Other Assets

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Non-current:		
Deferred compensation cost (Note 31)	**160,006**	213,292
Prepayment to directors and writers (Note a)	**77,131**	93,376
Deposits and prepayments	**19,584**	7,420
	256,721	314,088
Current:		
Amounts due from related parties (Note 38)	**296,835**	125,733
Receivable from co-producers on production of television series and films	**155,541**	88,519
Prepaid corporate income tax	**132,552**	34,995
Recoverable value-added tax	**119,687**	82,044
Deferred costs	**92,364**	80,601
Prepayment for production of television series and films	**68,874**	152,599
Prepayments to vendors and online writers	**49,671**	62,131
Prepayment to directors and writers (Note a)	**23,350**	23,150
Rental and other deposits	**19,147**	25,119
Interests receivable	**11,095**	21,851
Prepayment for overseas licensed film rights	**6,287**	6,440
Royalty advances	**4,272**	6,041
Staff advances	**2,617**	3,461
Others	**49,679**	22,124
	1,031,971	734,808

Note:

(a) As of December 31, 2021, the balance represented the prepayments made to directors, actors and writers in connection with the Group's productions of television series and film rights.

The directors of the Company considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as of December 31, 2021 and 2020. Deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

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24 Inventories

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Adaptation rights and scripts	**593,374**	510,718
Raw materials	**11,830**	9,251
Work in progress	**4,260**	9,947
Inventories in warehouse	**70,539**	74,573
Inventories held with distributors on consignment	**71,106**	76,609
Others	**1,859**	3,051
	752,968	684,149
Less: provision for inventory obsolescence	**(99,204)**	(112,319)
	653,764	571,830

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the year ended December 31, 2021, the cost of inventories, including provision for inventory obsolescence, recognised as expense and included in "cost of revenues" amounted to approximately RMB225,514,000 (2020: RMB284,003,000).

During the year ended December 31, 2021, the provision for inventory obsolescence as utilised upon the Group's ultimate sales of the related inventories amounted to approximately RMB38,488,000 (2020: RMB35,249,000) and there was no reversal of over-provision recognised in profit or loss.

25 Television Series and Film Rights

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Television series and film rights		
– under production	**813,633**	586,173
– completed	**277,259**	54,323
	1,090,892	640,496

25 Television Series and Film Rights (Continued)

	Under production RMB'000	Completed RMB'000	Total RMB'000
As of January 1, 2021	**586,173**	**54,323**	**640,496**
Additions	**904,254**	**–**	**904,254**
Transfer from under production to completed (Note b)	**(701,220)**	**701,220**	**–**
Transfer from adaptation rights and scripts to under production	**24,426**	**–**	**24,426**
Recognised in cost of revenue (Note a)	**–**	**(430,698)**	**(430,698)**
Recognised in other gains/(losses), net (Note 9(b))	**–**	**(47,586)**	**(47,586)**
As of December 31, 2021 (Note b)	**813,633**	**277,259**	**1,090,892**
As of January 1, 2020	655,723	451,948	1,107,671
Additions	744,562	–	744,562
Transfer from under production to completed (Note b)	(844,013)	844,013	–
Transfer from adaptation rights and scripts to under production	51,693	–	51,693
Recognised in cost of revenue (Note a)	(21,792)	(1,090,092)	(1,111,884)
Recognised in other gains/(losses), net (Note 9(b))	–	(151,546)	(151,546)
As of December 31, 2020 (Note b)	586,173	54,323	640,496

Notes:

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

(b) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

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26 Trade and Notes Receivables

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

The Group applies the IFRS 9 simplified approach for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The Group also performed assessment at 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, 2021 and 2020.

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Trade and notes receivables		
– Up to 3 months	**1,398,814**	2,380,858
– 3 to 6 months	**332,890**	99,594
– 6 months to 1 year	**468,578**	88,302
– 1 to 2 years	**526,653**	711,222
– Over 2 years	**20,305**	16,311
	2,747,240	3,296,287

27 Cash and Cash Equivalents, Term Deposits and Restricted Bank Deposits

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Bank balances, term deposits and restricted bank deposits	**7,206,443**	6,256,910
Less: Term deposits with initial term of over three months and less than one year	**2,678,031**	3,408,679
Cash and cash equivalents	**4,528,412**	2,848,231
Maximum exposure to credit risk	**7,206,443**	6,256,910

Bank balances and term deposits are denominated in the following currencies:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
USD	**1,521,691**	1,771,680
RMB	**5,613,815**	4,065,152
HKD	**56,216**	407,105
Thai Baht ("THB")	**9,979**	11,790
SGD	**1,713**	1,183
JPY	**3,029**	–
	7,206,443	6,256,910

Term deposits with initial terms of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as of December 31, 2021.

The effective interest rates of the term deposits with initial terms of over three months of the Group for the year ended December 31, 2021 are 2.72% (2020: 1.76%).

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28 Borrowings

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

Notes:

(a) As of December 31, 2021, the Group's unsecured long-term bank borrowings consist of USD60,000,000 (approximately RMB382,542,000) bearing fixed interest rate of 1.41% per annum and RMB300,000,000 bearing fixed interest rate of 5.70% per annum, which will be repayable on February 28, 2023 and from April 19, 2022 to September 2, 2022 respectively. The long-term borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and other subsidiaries of the Group. As of December 31, 2021, the borrowing balance of RMB300,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2021.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

28 Borrowings (Continued)

As of December 31, 2021 and 2020, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Within 1 year	**792,776**	554,444
Between 1 and 2 years	**382,542**	300,000
Between 2 and 3 years	**–**	391,494
	1,175,318	1,245,938

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

29 Trade Payables

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
– Up to 3 months	**560,438**	746,347
– 3 to 6 months	**144,581**	116,074
– 6 months to 1 year	**134,000**	51,144
– Over 1 year	**288,349**	126,088
	1,127,368	1,039,653

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30 Other Payables and Accruals

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Advertising and marketing expense accruals	**238,257**	212,563
Staff costs and welfare accruals	**219,719**	162,658
Deposits received from a fellow subsidiary	**215,612**	–
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	**170,412**	209,405
Other taxes payable	**120,262**	96,551
Professional service fee payable	**44,904**	30,171
Outsourcing game development fee payable	**32,520**	24,564
Payments received from co-producer (Note b)	**16,424**	52,040
Special funds payable	**15,170**	11,300
Payables to financial investors in TV programs and film production	**15,124**	119,335
Payables related to transfer of intangible asset	**11,988**	12,491
Interests payable	**1,579**	1,940
Payables related to investment in financial asset at fair value through profit or loss (Note 9 (a))	**–**	124,033
Payables due to a non-controlling shareholder	**–**	7,375
Others	**83,791**	85,282
	1,185,762	1,149,708

Notes:

(a) These payables are related to the proceeds generated from television series and film rights that are collected by the Group as a distribution agent.

(b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

31 Financial Liabilities at Fair Value through Profit or Loss

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Non-current:		
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media	**827,190**	1,037,924
Current:		
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media	**324,664**	358,178
	1,151,854	1,396,102

Note:

On October 31, 2018, the Group entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. Pursuant to the share purchase agreement, the aggregate nominal consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to the earn out mechanism that set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the share purchase agreement.

In addition, out of the total nominal consideration of RMB15,500,000,000, RMB500,000,000 is a contingent payment that subject to the conditions including 1) certain profit target for the year ending December 31, 2020 is met; and 2) a specific group of selling shareholders (as defined in the share purchase agreement) continues his/her employment relationship with the Group till March 31, 2023. As such, the RMB500,000,000 contingent payment is considered and accounted as remuneration for post-combination services.

For the year ended December 31, 2020, since New Classics Media would not be able to meet the defined profit target for the year ending December 31, 2020, the Group reversed previously recognised post-combination service expense, which is recognised for the period from the acquisition date of New Classics Media to December 31, 2019, in the amount of approximately RMB116,667,000 recognised it as a deduction of employee benefits expenses in the "general and administrative expenses" of the consolidated statement of comprehensive income/(loss).

On August 27, 2020, the Group entered into a supplemental deed in relation to the amendment of the 2018 New Classics Media Share Purchase Agreement ("the supplemental SPA deed"), which was approved by the shareholders of the Group on December 9, 2020 and took effective from December 11, 2020 (the "Effective Date"). Pursuant to the supplemental SPA deed, the original earn out mechanism was revised. The original earn out consideration payable by the Group for the year ended December 31, 2020 under the original earn out mechanism (being 15,119,815 consideration shares and approximately RMB1,021,000,000 in cash) has been apportioned into five tranches and allocated to cover the five financial years of New Classics Media ending December 31, 2024, and is subject to additional conditions and adjustments set forth in the supplemental SPA deed. Under the new earn out mechanism (as defined in the supplemental SPA deed), a total number of 3,023,963 consideration shares at a par value of USD0.0001 each were issued and a total cash consideration of approximately RMB204,201,000 was paid in April 2021.

On the Effective Date, the consideration receivable under the original earn out mechanism were derecognised and the estimated consideration payable of approximately RMB1,396,102,000 arising from the new earn out mechanism (as defined in the supplemental SPA deed) was recognised as "contingent consideration payable". The contingent consideration payable was initially and subsequently measured at fair value based on the valuation performed by the independent external valuation firm.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

31 Financial Liabilities at Fair Value through Profit or Loss (Continued)

Note: (Continued)

Under the supplemental SPA deed, founder SPV (as defined in the share purchase agreement entered into on August 13, 2018) must return to the Group an amount of approximately RMB216,358,000 on a one-time basis equal to the return of consideration under the original earn out mechanism, if he ceases or terminates his employment or breaches the deed of non-competition. As such, approximately RMB216,358,000 was considered and accounted as remuneration for his future services and was recognised as "deferred compensation cost" in the consolidated statement of financial position. For the year end December 31, 2021, the compensation cost amounting to approximately RMB53,286,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income/(loss) (For the period from the Effective Date to December 31, 2020: RMB3,066,000).

In addition, out of the total aforementioned consideration, an aggregate RMB20,000,000 was a contingent payment which would be automatically forfeited if a specific group of employment in New Classics Media terminates his/her employment. It was also considered and accounted as remuneration for his/her future service. During the year ended December 31, 2021, RMB500,000 (2020: nil) has been deducted from the consideration payment since certain management employees have left New Classics Media. The compensation cost amounting to approximately RMB3,500,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income/(loss) during the year ended December 31, 2021 (For the period from the Effective Date to December 31, 2020: RMB4,000,000).

32 Share Capital, Share Premium and Shares Held for RSU Schemes

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU schemes RMB'000	Total RMB'000
As of January 1, 2020	1,012,336,846	642	16,161,809	(19)	16,162,432
Transfer of vested RSUs	–	–	9	10	19
Issue of ordinary shares as consideration for a business combination (Note 31)	3,444,870	3	97,870	–	97,873
As of December 31, 2020	1,015,781,716	645	16,259,688	(9)	16,260,324
Transfer of vested RSUs	**–**	**–**	**(48,987)**	**5,814**	**(43,173)**
Issue of ordinary shares as consideration for a business combination (Note 31)	**3,023,963**	**2**	**202,027**	**–**	**202,029**
Issue of new shares pursuant to the RSU scheme	**3,220,870**	**2**	**–**	**(2)**	**–**
Repurchase of shares for RSU scheme	**–**	**–**	**–**	**(23,253)**	**(23,253)**
As of December 31, 2021	**1,022,026,549**	**649**	**16,412,728**	**(17,450)**	**16,395,927**

33 Other Reserves

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option on non-controlling interests RMB'000	Shares-based compensation reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Investment in joint ventures and associates RMB'000	FVOCI RMB'000	Total RMB'000
As of January 1, 2021	**34,127**	**309,781**	**10,964**	**762,361**	**181,807**	**(40,785)**	**9,933**	**–**	**1,268,188**
Currency translation differences	**–**	**(26,592)**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,592)**
Share-based compensation expenses (Note 34)	**–**	**–**	**–**	**188,138**	**–**	**–**	**–**	**–**	**188,138**
Profit appropriations to statutory reserves (Note a)	**–**	**–**	**–**	**–**	**76,177**	**–**	**–**	**–**	**76,177**
Share of other comprehensive income of associates and a joint venture	**–**	**(28,911)**	**–**	**–**	**–**	**–**	**(2)**	**–**	**(28,913)**
Net loss from change in fair value of FVOCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,897)**	**(21,897)**
As of December 31, 2021	**34,127**	**254,278**	**10,964**	**950,499**	**257,984**	**(40,785)**	**9,931**	**(21,897)**	**1,455,101**
As of January 1, 2020	34,127	341,158	10,964	642,157	131,923	(35,831)	10,889	–	1,135,387
Currency translation differences	–	(33,364)	–	–	–	–	–	–	(33,364)
Share-based compensation expenses (Note 34)	–	–	–	120,204	–	–	–	–	120,204
Profit appropriations to statutory reserves (Note a)	–	–	–	–	49,884	–	–	–	49,884
Acquisition of non-controlling interests (Note b)	–	–	–	–	–	(4,954)	–	–	(4,954)
Share of other comprehensive income of associates and a joint venture	–	1,987	–	–	–	–	(956)	–	1,031
As of December 31, 2020	34,127	309,781	10,964	762,361	181,807	(40,785)	9,933	–	1,268,188

Notes:

(a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) During the year ended December 31, 2020, the Group has acquired non-controlling interests in one of the Group's non-wholly owned subsidiaries, and the aggregate net excess of consideration over the carrying amount of acquired net non-controlling interests, being approximately RMB4,954,000, were recognised directly in equity.

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34 Share-based Payments

(a) RSU Schemes of the Group

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

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

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

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

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

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

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

On January 4, April 12, July 12, October 18 and November 5, 2021, 570,343, 124,112, 117,495, 455,610 and 618,929 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 RSU Scheme, respectively. Each RSU is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

34 Share-based Payments (Continued)

(a) RSU Schemes of the Group (Continued)

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 RSU is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

On April 12, July 12 and September 16, 2021, 81,436, 1,815,526 and 63,296 RSUs have been granted to certain directors and employees of the Group under the 2020 Restricted Share Unit Scheme, respectively. Each RSU is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

Movements in the number of RSUs outstanding is as follows:

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

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

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

34 Share-based Payments (Continued)

(b) Share Option Scheme of the Group

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

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

(i) Movements in share options

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

	Share Option Scheme	
	Average exercise price	**Number of options**
	RMB'000	RMB'000
As of January 1, 2021		
Grant	HKD76.06	7,811,453
As of December 31, 2021	HKD76.06	7,811,453
Exercisable as of December 31, 2021	HKD82.85	1,268,750

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 Share-based Payments (Continued)

(b) Share Option Scheme of the Group (Continued)

(ii) Outstanding share options

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

Expiry Date	**Range of exercise price** RMB'000	**Number of share options December 31, 2021** RMB'000
10 years commencing from the date of grant of options	HKD53.14~82.8	7,811,453

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

(iii) Fair value of options

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

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

	2021 RMB'000
Weighted average share price at the grant date	HKD76.06
Risk free rate	1.6%
Dividend yield	0.0%
Expected volatility*	25.0%

*Note:

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

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34 Share-based Payments (Continued)

(c) Shares Held for RSU Schemes

The Company has set up two structured entities ("RSUs Scheme Trusts"), namely Link Apex Holdings Limited and Peak Income Group Limited, which are solely for the purpose of administering and holding the Company's shares for the 2014 RSU Scheme. Pursuant to a resolution passed by the Board of Directors of the Company on October 10, 2017, the Company issued 40,409,091 ordinary shares to the RSUs scheme Trusts at a par value of USD0.0001 each, being the ordinary shares underlying the Company's 2014 RSU Scheme. In addition, the Company has entered into a trust deed with an independent trustee (the "RSU Trustee") on October 10, 2017, pursuant to which the RSU Trustee shall act as the administrator of the Company's RSUs Scheme.

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

As of December 31, 2021 and 2020, the Company has appointed a professional and independent trustee, BOCI Prudential Trustee, as the trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme.

(d) 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/(loss). As of December 31, 2021, the Expected Retention Rate of the Group was assessed to be no lower than 92% (2020: 100%).

35 Contingencies

The Group did not have any other material contingent liabilities as of December 31, 2021 (2020: nil).

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36 Cash Flow Information

(a) Cash Generated from Operating Activities

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) for the year	**1,842,927**	(4,500,197)
Adjustments for:		
Income tax expense/(benefit)	**460,141**	(38,523)
Compensation charges for post-combination services	**56,936**	(109,603)
Share-based compensation expenses	**188,138**	120,204
Depreciation of property, plant and equipment	**19,085**	23,703
Amortisation of intangible assets	**395,462**	215,948
Loss on disposals of property, plant and equipment	**47**	353
Net (reversal of)/provision for impairment losses on financial assets	**(24,420)**	130,203
Provision for inventory obsolescence	**75,108**	72,824
Impairment loss of goodwill	**–**	4,015,854
Impairment provision for investments in associates and a joint venture	**12,064**	251,960
Impairment loss of other intangible assets	**25,776**	537,086
Impairment loss of television series and film rights	**4,684**	249,255
Share of net profit of investments accounted for using equity method	**(199,191)**	(4,733)
Loss on liquidation of subsidiaries	**3,590**	–
Gain on sale of held for sale asset	**(1,076,817)**	–
Interest income on bank deposits	**(125,353)**	(116,315)
Fair value (gain)/loss of investment in a listed entity	**(1,512)**	1,305
Fair value (gain)/loss of investment in redeemable shares of associates	**(48,827)**	11,624
Fair value loss of investments in movies and TV series	**12,238**	–
Fair value loss/(gain) on contingent consideration payable	**158,332**	(858,870)
Loss from modification of contingent consideration payable	**–**	1,463,431
Interest expense	**55,407**	64,195
Foreign exchange losses, net	**5,443**	1,107
Depreciation charge of right-of-use assets	**80,254**	62,268
Impairment of prepayments to directors and actors	**28,028**	32,000
Gain from disposal of investments in associates	**(211,445)**	–
Gain on disposal of intangible assets	**(133,962)**	–
Gain on disposal of financial assets at fair value through profit or loss	**(39)**	–
Changes in operating assets and liabilities:		
Decrease/(increase) in trade and notes receivables	**575,751**	(44,357)
Increase in inventories	**(157,043)**	(38,617)
(Increase)/decrease in television series and film rights	**(459,838)**	217,920
Increase in prepayments, deposits and other assets	**(301,868)**	(88,392)
Increase in trade payables	**87,071**	18,977
Decrease in deferred revenue	**(213,069)**	(89,492)
Increase/(decrease) in other payables and accruals	**510,537**	(350,186)
Net cash provided by operating activities	**1,643,635**	1,250,932

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36 Cash Flow Information (Continued)

(b) Non-cash Investing and Financing Activities

During the year ended December 31, 2021 and 2020, non-cash investing and financing activities disclosed in other notes are as follows:

- acquisition of right-of-use assets – Note 16
- Issuance of ordinary shares as consideration for a business combination – Note 31
- Investment in redeemable convertible preferred shares of a third-party company that principally engaged in online literature business – Note 9(a)

(c) Net Debt Reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (non-current) RMB'000	Borrowings (current) RMB'000	Interest payable RMB'000	Leases (current and non-current) RMB'000	Payables to financial investors in TV programs and film production RMB'000	Consideration payable related to the acquisition of Cloudary's non-controlling interests (current) RMB'000	Total RMB'000
As of January 1, 2021	**691,494**	**554,444**	**1,940**	**85,217**	**119,335**	**–**	**1,452,430**
Cash flows	**(8,952)**	**(61,668)**	**(63,681)**	**(88,222)**	**(104,211)**	**–**	**(326,734)**
Other non-cash movements	**(300,000)**	**300,000**	**63,320**	**277,428**	**–**	**–**	**340,748**
As of December 31, 2021	**382,542**	**792,776**	**1,579**	**274,423**	**15,124**	**–**	**1,466,444**
As of January 1, 2020	–	1,303,072	1,677	89,929	122,566	500	1,517,744
Cash flows	691,494	(748,628)	(67,415)	(57,880)	(3,231)	–	(185,660)
Other non-cash movements	–	–	67,678	53,168	–	(500)	120,346
As of December 31, 2020	691,494	554,444	1,940	85,217	119,335	–	1,452,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

37 Subsidiaries and Controlled Structured Entities

Particulars of the principal subsidiaries of the Group as of the date of these consolidated financial statements and as of December 31, 2021 are set out below:

Company name	Place of incorporation	Date of incorporation	Registered capital	Percentage of attributable equity interest	Principal activities
Shanghai Yuewen Information Technology Co., Ltd. ("上海閱文信息技術有限公司")	PRC	April 2, 2014	RMB10,000,000	100.00%	Online reading business, intellectual property operations and online advertising
Shanghai Xuanting Entertainment Information Technology Co., Ltd. ("上海玄霆娛樂信息科技有限公司")	PRC	August 26, 2004	RMB108,000,000	100.00%	Online reading business
Tianjin Zhongzhi Bowen Book Co., Ltd. ("天津中智博文圖書有限公司")	PRC	March 1, 2010	RMB11,626,440	89.55%	Physical book business
Tianjin Huawen Tianxia Book Co., Ltd. ("天津華文天下圖書有限公司")	PRC	June 23, 2009	RMB10,204,100	100.00%	Physical book business
Shengyun Information Technology (Tianjin) Co., Ltd. ("盛雲信息技術(天津)有限公司")	PRC	June 13, 2013	USD30,000,000	100.00%	Intellectual property management
Beijing Hongxiu Tianxiang Technology Development Co., Ltd. ("北京紅袖添香科技發展有限公司")	PRC	March 20, 2006	RMB10,000,000	100.00%	Online reading business
Shanghai Hongwen Networking Technology Co., Ltd. ("上海宏文網絡科技有限公司")	PRC	October 22, 2008	RMB10,000,000	100.00%	Online reading business, intellectual property operations and online advertising
New Classics Television Entertainment Investment Company Limited ("新麗電視文化投資有限公司")	PRC	September 24, 2008	RMB50,000,000	100.00%	Television series and film production
New Classics Movie (Zhejiang) Company Limited ("新麗電影(浙江)有限公司")	PRC	January 4, 2010	RMB10,000,000	100.00%	Television series and film production
Shanghai Yuewen Films Culture Communication Company Limited ("上海閱文影視文化傳播有限公司")	PRC	January 24, 2017	RMB10,000,000	100.00%	Television series and film production
Yueting Information Technology (Shanghai) Co., Ltd. ("閱霆信息技術(上海)有限公司")	PRC	May 27, 2008	USD100,000,000	100.00%	Intellectual property management
Cloudary Holdings Limited ("閱文文學有限公司")	PRC	September 28, 2007	USD15,000,000	100.00%	Online reading business
Yueting Information Technology (Tianjin) Co., Ltd. ("閱霆信息技術(天津)有限公司")	PRC	June 28, 2017	USD3,000,000	100.00%	Intellectual property management

Note:

(a) The English names of the subsidiaries represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

38 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Names of the major related parties	Nature of relationship
Tencent Holdings Limited	Ultimate holding company
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Tencent Film Culture Co., Ltd.	Fellow subsidiary
Shenzhen Lazy Online Technology Co., Ltd.	Fellow subsidiary
Tencent Cloud Computing (Beijing) Company Limited	Fellow subsidiary
Tencent Music Entertainment Group	Fellow subsidiary
Tencent Technology (Chengdu) Company Limited	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Beijing Tencent Culture Media Co., Ltd.	Fellow subsidiary
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Aceville Pte. Ltd	Fellow subsidiary
Khorgas Fanrenxianjie Media Co., Ltd.	Joint venture of the Group
Col Digital Publishing Group Co., Ltd.	Associate of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group
Tianjin Maoyan Weiying Media Co., Ltd.	Associate of the ultimate holding company
Tibet Tongkan Future Film and Culture Media Co., Ltd.	Associate of the ultimate holding company
Seven Impression (Xiamen) Film Media Co., Ltd.	Associate of the ultimate holding company
Shanghai Mengqiu Network Technology Co., Ltd.	Associate of the ultimate holding company
Shengji Information Technology (Shanghai) Co., Ltd.	Associate of the ultimate holding company
Seven Impressions Media (Haikou) Co., Ltd.	Associate of the ultimate holding company
Tianjin Deep Blue Film Media Co., Ltd.	Associate of the ultimate holding company
Beijing Weiying Shidai Technology Co., Ltd.	Associate of the ultimate holding company

38 Related Party Transactions (Continued)

The following transactions were carried out with related parties:

(a) Copyrights Licensing, Provision of Advertising and Sales of Physical Books

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Fellow subsidiaries	**1,883,822**	1,427,055
Associates of the ultimate holding company (Note)	**265,934**	40,095
Associates of the Group	**37,373**	10,800
Joint ventures of the Group	**14,406**	24,166
	2,201,535	1,502,116

(b) Receipts of Services, Purchase of Animation Works and Other Purchase

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Fellow subsidiaries	**370,095**	278,723
Associates of the ultimate holding company	**26,569**	10,363
Associates of the Group	**91,113**	65,174
Joint ventures of the Group	**2,649**	5,634
	490,426	359,894

The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

Note:

For the related party transactions disclosed in Note 38, the associates of the ultimate holding company represented the companies that are associates of the Company's ultimate holding company Tencent but not the associate of the Group, whose related parties transactions are disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

38 Related Party Transactions (Continued)

(c) Sale of Equity Interest in Shenzhen Lazy Online Technology Co., Ltd. ("Lazy Online")

As of December 31, 2020, the Group owned 40% legal ownership interest of Lazy Online. The Group used the equity method to account for the investment in Lazy Online. On November 25, 2020, the Group entered into a letter of intent to sell all its equity interest in Lazy Online to Tencent Music Entertainment Group, a fellow subsidiary of the Group. The investment in Lazy Online was classified as held for sale asset with carrying amount of nil. In February 2021, the Group sold all of its equity interest in Lazy Online at a total consideration of approximately RMB1,076,817,000, and the difference between the carrying value of held for sale asset and cash consideration was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss). Amounts recorded in "other comprehensive income" relating to changes in Lazy Online's own credit risk of approximately RMB9,911,000 were not recycled in the consolidated statement of comprehensive income/(loss).

(d) Loan Facility Provided by a Fellow Subsidiary

In November 2019, one of the Group's subsidiary, Yueting Information Technology (Shanghai) Co., Ltd. ("Shanghai Yueting"), entered into a two-year loan facility agreement with a subsidiary of Tencent, where a loan facility up to RMB400 million was made available to Shanghai Yueting. In November 2021, the above mentioned loan facility has been expired according to the loan facility agreement. As of the expiry date, the Group has not utilised any loan facility provided by the fellow subsidiary.

(e) Balances with Related Parties

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries (Note)	**1,599,474**	1,200,975
Associates of the ultimate holding company	**73,168**	19,327
Associates of the Group	**2,425**	2,000
Joint ventures of the Group	**591**	8,446
	1,675,658	1,230,748
Prepayments, deposits and other receivables		
Fellow subsidiaries	**290,244**	120,078
Associates of the ultimate holding company	**5,508**	3,974
Associates of the Group	**1,083**	1,127
Joint venture of the Group	**–**	554
	296,835	125,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

38 Related Party Transactions (Continued)

(e) Balances with Related Parties (Continued)

Note:

Trade receivables from fellow subsidiaries are mainly arising from the collection of payments from the Group's customers on behalf of the Group and license of television series.

Receivables due from related parties are unsecured, interest-free and repayable on demand. No provisions are made against receivables from related parties.

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	**111,051**	25,929
Associates of the ultimate holding company	**24,135**	3,019
Associates of the Group	**7,404**	192
Joint ventures of the Group	**1,750**	3,288
	144,340	32,428

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Other payables and accruals		
Fellow subsidiaries	**298,783**	65,865
Associates of the ultimate holding company	**57,118**	74,944
Associates of the Group	**329**	2
	356,230	140,811

Payables due from related parties are unsecured, interest-free and payable on demand.

(f) Key Management Personnel Compensations

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Salaries, wages and bonuses	**3,957**	5,777
Other social security costs, housing benefits and other employee benefits	**22**	142
Pension costs – defined contribution plans	**32**	16
Share-based compensation expenses	**45,233**	3,012
	49,244	8,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39 Financial Position and Reserve Movement of the Company

(a) Financial Position of the Company

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	**3**	149
Investments in subsidiaries	**10,642,567**	10,290,379
Prepayments, deposits and other assets	**161,531**	214,875
Right-of-use assets	**780**	170
Financial asset at fair value through other comprehensive income	**14,073**	–
	10,818,954	10,505,573
Current assets		
Prepayments, deposits and other assets	**9,147**	2,623
Amounts due from subsidiaries	**3,812,775**	3,324,973
Term deposits	**–**	896,845
Cash and cash equivalents	**490,850**	400,601
	4,312,772	4,625,042
Total assets	**15,131,726**	15,130,615
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**649**	645
Shares held for RSU schemes	**(17,450)**	(9)
Share premium	**16,656,117**	16,503,077
Other reserves	**967,122**	793,050
Accumulated losses	**(4,548,449)**	(4,399,015)
Total equity	**13,057,989**	12,897,748
LIABILITIES		
Non-current liabilities		
Borrowings	**382,542**	391,494
Lease liabilities	**129**	–
Financial liabilities at fair value through profit or loss	**827,190**	1,037,924
	1,209,861	1,429,418
Current liabilities		
Lease liabilities	**619**	110
Other payables and accruals	**538,593**	445,161
Financial liabilities at fair value through profit or loss	**324,664**	358,178
	863,876	803,449
Total liabilities	**2,073,737**	2,232,867
Total equity and liabilities	**15,131,726**	15,130,615

The statement of financial position of the Company was approved by the Board of Directors on March 22, 2022 and was signed on its behalf.

Director Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39 Financial Position and Reserve Movement of the Company (Continued)

(b) Reserve Movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
As of January 1, 2021	**793,050**	**(4,399,015)**
Comprehensive loss		
Loss for the year	**–**	**(149,434)**
Other comprehensive loss		
– Currency translation differences	**(14,066)**	**–**
Total comprehensive loss for the year	**(14,066)**	**(149,434)**
Transaction with owners		
Share-based compensation expenses (Note 34)	**188,138**	**–**
Total transactions with owners recognised directly in equity for the year	**188,138**	**–**
As of December 31, 2021	**967,122**	**(4,548,449)**

	Other reserves RMB'000	(Accumulated losses)/retained earnings RMB'000
As of January 1, 2020	747,563	482,638
Comprehensive loss		
Loss for the year	-	(4,881,653)
Other comprehensive loss		
– Currency translation differences	(74,717)	–
Total comprehensive loss for the year	(74,717)	(4,881,653)
Transaction with owners		
Share-based compensation expenses (Note 34)	120,204	–
Total transactions with owners recognised directly in equity for the year	120,204	–
As of December 31, 2020	793,050	(4,399,015)

DEFINITIONS

"2014 RSU Scheme"	:	a restricted stock unit scheme adopted by the Company on December 23,2014;
"2020 Restricted Share Unit Scheme"	:	a restricted share unit scheme of the Company adopted on May 15, 2020
"2018 NCM Share Purchase Agreement"	:	the share purchase agreement entered the Founder into among the Company, Tencent Mobility, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 13, 2018, in relation to, among other things, the purchase of 100% equity interests of the NCM Holdings by the Company from the Vendors;
"Adaptation Rights"	:	the rights for adaptation of the Literary Work into movies and television series by real characters, animated movies, games, reality products developed by the adapted products and trademarks of the Literary Work (including sub-licensing rights thereof);
"Administrator"	:	the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board;
"AGM"	:	the forthcoming annual general meeting of the Company to be held on May 23, 2022;
"Articles of Association"	:	the amended and restated articles of association of the Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time;
"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	PricewaterhouseCoopers, the external auditor of the Company;
"Award(s)"	:	the restricted stock unit(s) granted under the RSU Plan;
"Award Agreement(s)"	:	the agreements evidencing the grant of the Awards;
"Board"	:	the board of Directors of the Company;

DEFINITIONS

"Board Committees"	:	the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee;
"C-Hero Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
"Catalog"	:	the Guidance Catalog of Industries for Foreign Investment;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report;
"China Reading HK"	:	China Reading (Hong Kong) Limited (中國閱讀(香港)有限公司), a limited liability company incorporated in Hong Kong on April 24, 2013, and our directly wholly-owned subsidiary;
"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;
"Cloudary HK"	:	Cloudary Holdings Limited (閱文文學有限公司, formerly known as Shanda Literature Limited), a limited liability company incorporated in Hong Kong on September 28, 2007, and our indirectly wholly-owned subsidiary;
"Chief Executive Officer" or "CEO"	:	the chief executive officer of the Company;
"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;

DEFINITIONS

"connected person(s)"	:	has the meaning ascribed to it under the Listing Rules;
"COVID-19"	:	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC and worldwide since around January 2020;
"Consolidated Affiliated Entities"	:	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries;
"Continuing Connected Transactions"	:	the continuing connected transactions of the Group during the year ended 31 December 2021;
"Contractual Arrangements"	:	the series of contractual arrangements entered into by, among others, our Company, the WFOEs and the PRC Holdcos, namely Wen VIE and NCM VIE;
"Contractual Arrangements Date"	:	in the case of the Wen VIE, June 27, 2017; and in the case of the NCM VIE, August 13, 2018;
"Controlling Shareholders"	:	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Tencent, THL A13, Qinghai Lake and Tencent Mobility;
"Ding Dong-D Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
"Director(s)"	:	the director(s) of our Company;
"Equity Pledge Agreements"	:	the equity pledge agreements entered into between the WFOEs, the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, where the Registered Shareholder(s) agreed to pledge all their respective equity interests in the PRC Holdco(s) that they owned, including any interest or dividend paid for the Shares, to the WFOE(s)as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts;

DEFINITIONS

"Exclusive Business Cooperation Agreements"	:	the exclusive business cooperation agreements that each of the PRC Holdco(s) entered into with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their/its exclusive provider of technical support, consultation and other services;
"Exclusive Option Agreements"	:	the exclusive option agreements entered into among the WFOE(s), the PRC Holder(s) and the Registered Shareholders on the Contractual Arrangements Date, pursuant to which, the WFOE(s) have the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred; and in the case of the NCM VIE, the lowest price as permitted by PRC laws);
"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;
"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China;
"HKD"	:	the lawful currency of Hong Kong;
"IEG"	:	interactive entertainment group;
"IP"	:	intellectual property;
"IP Cooperation CCTs"	:	the cooperation between Shanghai Yueting and Tencent Computer under the IP Cooperation Framework Agreement;
"IPO"	:	initial public offering;

DEFINITIONS

"JPY"	:	the lawful currency of Japan;
"Linzhi Tencent"	:	Linzhi Tencent Technology Company Ltd.(林芝騰訊科技有限公司), an indirect subsidiary of Tencent established in the PRC on October 26, 2015, the equity interest of which is ultimately held by PRC nationals;
"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;
"Litong"	:	Shenzhen Litong Industry Investment Fund Company Limited(深圳市利通產業投資基金有限公司), a company established in the PRC on August 5, 2013, which is a shareholder of each of the PRC Holdcos and a subsidiary of Tencent;
"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;

DEFINITIONS

"New Classics Media" or "NCM"	:	New Classics Media Holdings Limited, 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;
"New Classics Media Corporation"	:	New Classics Media Corporation (新麗傳媒集團有限公司), a company established in the PRC on February 7, 2007, having its registered address at C1-018-A, Hengdian Film and Television Industry Experimental Zone, Zhejiang;
"New Intergroup Agreements" and each a "New Intergroup Agreement"	:	the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our PRC Holdcos and any member of our Group;
"Ningbo Meishan Yuebao"	:	Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保稅港區閱寶投資有限公司), a company established in the PRC on April 25, 2017 and a shareholder of each of the PRC Holdcos;
"Online Platform Cooperation CCTs"	:	the cooperation entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) under the Online Platform Cooperation Framework Agreement;
"our literature platform", or "our platform"	:	all of online products, channels and content operated by China Literature, including but not limited to mobile apps, WAPs, websites and various channels;
"Powers of Attorney"	:	the powers of attorney executed by the Registered Shareholders on the Contractual Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdco(s);

DEFINITIONS

the "PRC" or "China"	:	the People's Republic of China;
"PRC Holdcos"	:	in the case of the Wen VIE, Shanghai Hongwen and Shanghai Yuewen; and in the case of the NCM VIE, New Classics Media Corporation;
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"Qinghai Lake"	:	Qinghai Lake Investment Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands on July 1, 2014 as an investment vehicle and a wholly-owned subsidiary of Tencent;
"Qisheng Culture Communication"	:	Qisheng Culture Communication (Tianjin) Co., Ltd.(奇盛文化傳播(天津)有限公司), a company established in the PRC on July 3, 2014, and our indirectly wholly-owned subsidiary;
"Registered Shareholders"	:	in the case of the Wen VIE, the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao, which own each of the PRC Holdcos as to 65.38% and 34.62%, respectively; and in the case of the NCM VIE, the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, which own the PRC Holdco as to 40.0%, 6.7%, 34.0%, 15.3% and 4.1%;
"Relevant Period" or "Reporting Period"	:	the year ended December 31, 2021;
"Restricted Period"	:	the restricted period of RSUs which commences on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement;
"Retained Tencent Group"	:	Tencent and its subsidiaries, excluding our Group;

DEFINITIONS

"Retained Tencent Group Platforms"	:	the self-operated channels on Tencent platforms that distribute our literary works through under the Online Platform Cooperation CCTs;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);
"RSU Plan"	:	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;
"SFO"	:	the Securities and Futures Ordinance;
"SGD"	:	the lawful currency of Singapore;
"Shanghai Hongwen"	:	Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008, and one of the PRC Holdcos;
"Shanghai Qiwen"	:	Shanghai Qiwen Information Technology Co., Ltd. (上海啟聞信息技術有限公司), a company established in the PRC on April 16, 2013 and one of our Consolidated Affiliated Entities;
"Shanghai Xuanting"	:	Shanghai Xuanting Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息科技有限公司), a company established in the PRC on August 26, 2004 and one of our Consolidated Affiliated Entities;
"Shanghai Yuechao"	:	Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and our indirectly wholly-owned subsidiary;
"Shanghai Yuehuo"	:	Shanghai Yuehuo Information Technology Co., Ltd. (上海閱活信息科技有限公司), a company established in the PRC on November 11, 2016 and one of our Consolidated Affiliated Entities;
"Shanghai Yueting"	:	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司，previously known as Shengting Information Technology (Shanghai) Co., Ltd.), a company established in the PRC on May 27, 2008, and our indirectly wholly-owned subsidiary;

DEFINITIONS

"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, and one of our PRC Holdcos;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Shareholders"	:	holder(s) of the Share(s);
"Shengyun Information Technology"	:	Shengyun Information Technology (Tianjin) Co., Ltd. (盛雲信息技術(天津)有限公司), a company established in the PRC on June 13, 2013, and our indirectly wholly-owned subsidiary;
"Shenzhen Lanren" or "Lazy Online"	:	Shenzhen Lanren (Lazy) 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;
"Shiji Kaixuan"	:	Shenzhen Shiji Kaixuan Technology Limited (深圳市世紀凱旋科技有限公司), an indirect subsidiary of Tencent incorporated with limited liability in PRC in January 13, 2004, the equity interest of which is held by PRC nationals;
"Sogou"	:	Sogou Inc., a company incorporated in the Cayman Islands, whose American Depositary Shares are listed on the New York Stock Exchange under the symbol "SOGO", an associate of Tencent and a connected person of the Company;
"Sogou Group"	:	certain subsidiaries or variable interest entities of Sogou, including Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京搜狗信息服務有限公司), Beijing Sogou Network Technology Co., Ltd. (北京搜狗網絡技術有限公司), Tianjin Sogou Network Technology Co., Ltd. (天津搜狗網絡技術有限公司), Chengdu Easypay Technology Co., Ltd. (成都吉易付科技有限公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息技術有限公司);
"Sogou Technology"	:	Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Sogou;

DEFINITIONS

"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;
"Supplemental SPA Deed"	:	the supplemental deed entered into between the Company, Mr. Cao Huayi, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 27, 2020 in relation to, among others the amendment of the 2018 NCM Share Purchase Agreement;
"Suzhou Jingwei"	:	Suzhou Jingwei Network Information Technology Co., Ltd. (蘇州經緯網絡信息科技有限公司), a company established in the PRC on July 25, 2007 and one of our Consolidated Affiliated Entities;
"Tencent"	:	Tencent Holdings Limited, the 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 (stock code: 700);
"Tencent Comics"	:	Shenzhen Tencent Comics Co., Ltd. (深圳市騰訊動漫有限公司), a company established in the PRC on September 19, 2006;
"Tencent Computer"	:	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent;
"Tencent Group"	:	Tencent and its subsidiaries from time to time, including our Group;
"Tencent Mobility"	:	Tencent Mobility Limited, a company incorporated with limited liability in Hong Kong, a wholly owned subsidiary of Tencent and a connected person of the Company;
"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 and associate of Tencent and a connected person of the Company;
"Tenpay"	:	Tenpay Payment Technology Co., Ltd. (財付通支付科技有限公司), a company established in the PRC and a subsidiary of Tencent Computer;

DEFINITIONS

"THB"	:	Thai Baht, the lawful currency of Thailand;
"THL A13"	:	THL A13 Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands as an investment vehicle on February 1, 2013 and a wholly-owned subsidiary of Tencent;
"Tianjin Huawen Tianxia Book"	:	Tianjin Huawen Tianxia Book Co., Ltd.(天津華文天下圖書有限公司), a company established in the PRC on June 23, 2009 and one of our Consolidated Affiliated Entities;
"Tianjin Under Banyan"	:	Tianjin Under Banyan Information Technology Co., Ltd.(天津榕樹下信息技術有限公司), a company established in the PRC on November 17, 2009 and one of our Consolidated Affiliated Entities;
"Tianjin Zhongzhi Bowen Book"	:	Tianjin Zhongzhi Bowen Book Co., Ltd.(天津中智博文圖書有限公司), a company established in the PRC on March 1, 2010 and one of our Consolidated Affiliated Entities;
"Tianwen Kadokawa"	:	Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd., a company established in Guangzhou, PRC, which is owned over 30% by Tencent and therefore is an associate of Tencent and a connected person of the Company;
"USD"	:	the lawful currency of the United States;
"Wangwen Xinyue"	:	Beijing Wangwen Xinyue Technology Co., Ltd.(北京網文欣閱科技有限公司), a company established in the PRC on March 12, 2010 and one of our Consolidated Affiliated Entities;
"WFOE(s)"	:	in the case of the Wen VIE, Shanghai Yueting and Shanghai Yuechao, and in the case of the NCM VIE, Xinli (Tianjin);
"Xiaoxiang College"	:	Xiaoxiang College (Tianjin) Culture Development Co., Ltd.(瀟湘書院(天津)文化發展有限公司), a company established in the PRC on June 8, 2010 and one of our Consolidated Affiliated Entities;
"Xinli (Tianjin)"	:	Xinli (Tianjin) Media Technology Co., Ltd.(新麗(天津)傳媒科技有限公司), a company incorporated with limited liability in PRC and an indirect wholly owned subsidiary of New classics Media;

DEFINITIONS

"Xinli TV"	:	Xinli TV Culture Investment Co., Ltd.(新麗電視文化投資有限公司), a company established in the PRC with limited liability;
"Xishi Investment"	:	Shanghai Xishi Investment Management Enterprise (Limited Partnership)(上海喜詩投資管理企業(有限合夥)), a limited partnership established in PRC on March 10, 2011, the limited partnership interest of which were held by the Mr. Cao Huayi and the individual shareholders of the X-Poem Limited who are PRC nationals;
"X-Poem Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands; and
"Yuewen Film"	:	Shanghai Yuewen Film and Television 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.

Notes:

For ease of reference, the names of the PRC established companies or entities have been included in this annual report in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

阅文集团