



China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772



INTERIM REPORT 2023



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Hou Xiaonan (*Chief Executive Officer and President*) (*appointed as Chief Executive Officer with effect from May 10, 2023*)

Mr. Huang Yan (*Vice President*) (*appointed on June 30, 2023*)

Mr. Cheng Wu (*resigned with effect from May 10, 2023*)

Non-executive Directors

Mr. James Gordon Mitchell (*Chairman*)

Mr. Cao Huayi

Mr. Xie Qinghua (*appointed on May 22, 2023*)

Mr. Cheng Yun Ming Matthew (*retired on May 22, 2023*)

Mr. Zou Zhengyu (*resigned on June 30, 2023*)

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. Xie Qinghua (*appointed on May 22, 2023*)

Mr. Cheng Yun Ming Matthew (*retired on May 22, 2023*)

Remuneration Committee

Ms. Leung Sau Ting Miranda (*Chairman*)

Ms. Yu Chor Woon Carol

Mr. James Gordon Mitchell

Nomination Committee

Mr. James Gordon Mitchell (*Chairman*)

Ms. Yu Chor Woon Carol

Mr. Liu Junmin

Strategy and Investment Committee

Mr. Hou Xiaonan (*Chairman*)

(*redesignated with effect from May 10, 2023*)

Mr. James Gordon Mitchell

Mr. Cheng Wu

(*resigned with effect from May 10, 2023*)

Mr. Zou Zhengyu (*resigned on June 30, 2023*)

Authorized Representatives

Mr. Hou Xiaonan

(*appointed with effect from May 10, 2023*)

Mr. Au Wai Keung (*appointed on May 31, 2023*)

Mr. Cheng Wu

(*resigned with effect from May 10, 2023*)

Ms. Cheng Pui Yan (*resigned on May 31, 2023*)

Joint Company Secretaries

Ms. Xu Lan

Mr. Au Wai Keung (*appointed on May 31, 2023*)

Ms. Cheng Pui Yan (*resigned on May 31, 2023*)

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

N3 Lujiazui Binjiang Center
No. 5169 Binjiang Avenue
Pudong New Area
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 PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)	Year- over-year (%)
Revenues	3,283,026	4,087,214	(19.7)
Gross profit	1,604,762	2,146,326	(25.2)
Operating profit	310,948	251,209	23.8
Profit before income tax	425,589	340,436	25.0
Profit for the period	375,979	232,276	61.9
Profit attributable to equity holders of the Company	376,680	228,545	64.8
Non-IFRS profit attributable to equity holders of the Company	603,119	665,995	(9.4)

CHAIRMAN'S STATEMENT

I hereby present our interim report for the six months ended June 30, 2023. To better reflect responsibilities, for this report Xiaonan, our Chief Executive Officer, and I are providing separate Chairman's and CEO's statements, with Xiaonan covering industry and company developments with greater insight and more detail than I could do.

For this statement, I start by thanking our prior CEO, Edward Cheng Wu, for his great contributions to China Literature during his three-year tenure. Edward stepped into the CEO role at a time when China Literature faced challenges including piracy, competing with advertisement-funded literature services, and integrating New Classics Media. During his time leading the Company, Edward worked resolutely and successfully to address these challenges: for example, initiatives by the government, the publishing industry, and China Literature have sharply curtailed the incidence of online book piracy, facilitating renewed user and revenue growth for China Literature apps such as Qidian. We highly value Edward as a colleague and friend, and wish him continued success in the future.

I also welcome our new CEO, Xiaonan, who assumed the role in May 2023, as well as our new executive director Gale Huang Yan, who joined the Board in June 2023. Xiaonan was previously China Literature's president, where he brought to bear his product and technical expertise while building relationships within and outside the Company. The risks that China Literature faces have evolved over the past three years, with piracy better controlled and differentiation versus advertising-funded services better defined, but new challenges and opportunities have emerged, such as the re-opening of China's theatrical release market and the advent of generative AI, which I believe Xiaonan and our leadership team are well-positioned to address using their collective expertise, experiences and efforts.

On the topic of generative AI, Xiaonan's statement will discuss with specificity how China Literature is starting to deploy this innovative technology in areas such as helping authors with their writing process, translating existing novels into foreign languages and providing audio book experiences of existing novels. A broader question we sometimes encounter is whether generative AI will replace humans as authors of novels. Our belief is that human authors

will remain distinctly different from AI authors and therefore continue to be the bedrock of China Literature's investment, library, and success. At a conceptual level, today's large language models draw on existing content corpuses (including, reportedly, online literature corpuses) for training purposes, enabling them to forecast the most likely next word based on a sequence of prior words. This extrapolation-from-prior-material methodology inherently does not lend itself to writing with a distinctively different style or setting, and thus to the breakthrough new voices that periodically reshape and stimulate the world of novel publishing. Over time, the large language models will become progressively better at producing novels in the style of one or other recognized and prolific author; however many jurisdictions, including China, have pre-existing laws to protect people (including authors) against unauthorized use or imitation of their name, likeness and voice, and will likely reinforce those protections, with additional rules to prevent generative AI copycats and ensure that the training itself only takes place under terms authorized by the authors and copyright holders. Empirically, while there is already a flood of AI-written content via self-publishing into platforms such as Amazon's Kindle ecosystem, the AI-written books rarely identify themselves as such, and AI-written books appear to receive substantially lower review ratings than human-written books. Consequently, while generative AI will further evolve and mutate, China Literature looks with optimism to a future where its relationships with human authors remain fundamental to fulfilling its mission of providing stories that live forever.

Finally, I 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, August 10, 2023

CEO'S STATEMENT

Through the economic ups and downs of the past three years, China Literature has formulated and implemented innovative programs to defend its leadership in the turbulent market. Our key observations from this experience include:

- 1) The paid reading sector remains a rich environment for incubating IP content. Improving the writer ecosystem and growing the online reading platform are key long-term tasks for us.
- 2) The Matthew Effect is more salient than ever in the IP domain. As “Blockbusters” play an increasingly crucial role in the gaming, animation, film and television industries, the demand for top-tier IP is growing rapidly.
- 3) The integrated development of IP is becoming increasingly important. By quickly and systematically developing audio, visual, and merchandise derivatives soon after the incubation of text-based IP, we will be able to shorten development cycles, reduce development costs, and increase our odds of creating blockbuster IPs. Moreover, the rapid advances in generative AI will create new opportunities to make this process even faster and more efficient.

Amidst these shifts in the market, we developed what we call an “IP metamorphosis” strategy, which lays out our development system for the entire IP lifecycle across various content formats. We have re-conceived the Company’s vision and mission, which is to “create good stories that will live forever.” In addition, we took initiatives to optimize costs, improve efficiency, and prioritize quality over quantity, as well as sharpened our focus on creating enduring and high-quality IP. Through all these upgrades, China Literature has continuously reached new milestones over the past three years, with the release of a series of blockbuster titles such as *Joy of Life* (慶餘年), *My Heroic Husband* (贅婿) and *A Lifelong Journey* (人世間).

This year’s critical breakthroughs in AI technology are a major turning point in our industry. We believe AI represents a once-in-a-generation opportunity, and opens up entirely new and exciting possibilities for China Literature.

Here are a few of our key takeaways on AI:

- 1) AI can super-charge content production, create multi-format user experiences and generally help us achieve the kind of integrated IP operations mentioned earlier. AI can facilitate the generation of content such as text, audio, comics, and animation, which can complement and be integrated with China Literature’s existing user operation system, helping China Literature reach a broader audience in a wider variety of formats, with enhanced user stickiness.
- 2) AI can play an integral role in IP incubation. Its ability to quickly convert text into visuals will allow us to front-load IP development work, increasing our success rate at creating blockbuster IP.
- 3) AI can be a highly efficient means of translating online literature into multiple languages and therefore achieving IP globalization and creating significant additional value.
- 4) AI opens up a vast new imaginative space, and can be fully integrated into the IP ecosystem as a foundational capability that empowers upstream and downstream partners alike.

In short, AI, especially generative AI, will empower us to build a content platform across multiple genres and media formats, and to build a new integrated upstream and downstream IP ecosystem. This is a key part of China Literature’s new medium to long-term business blueprint: using generative AI as a new engine to improve efficiency and quality in the IP ecosystem.

CEO'S STATEMENT

Recently, to better seize the once-in-a-generation opportunity brought by AI technology, strengthen the linkage between content and platforms, and continuously improve our success rate at creating film and television blockbusters, we have upgraded the Company's organizational structure and established four major business units, namely:

- The Content Ecosystem Platform Business Unit, which is mainly responsible for driving deep integration between original content creation and various platforms.
- The Film and TV Drama Business Unit, which is responsible for further integrating New Classics Media and China Literature to develop serialized IP dramas and films across various categories, and to create a steady stream of blockbusters.
- The Intelligence and Platform R&D Business Unit, which is responsible for driving breakthroughs in AI Large Language Model (LLM), and transforming them into cutting-edge generative AI applications.
- The Corporate Development Business Unit, which will oversee decision-making processes related to our core business and coordinate integrated IP development and operations.

We believe this new organizational structure will empower China Literature to leverage generative AI to re-shape our products and business processes. By improving IP mining and production efficiency, shortening IP development cycles, and improving our success rate at creating blockbuster IP, we will ultimately help the entire industry chain benefit from this historic wave of innovation.

In this July, we released our "Smart Pen" AI Large Language Model (LLM), the first LLM designed specifically for the online literature industry. We also launched the new Smart Pen Edition of our Author Assistant Application, which is based on our

proprietary LLM and will support writers in various aspects of content creation. This is merely our first step in embracing generative AI. We will continue to upgrade our LLM, leveraging AI technology to empower content creation and the IP ecosystem.

We believe that China Literature's embrace of AI innovation will have far-reaching effects well beyond our more conventional past corporate upgrades. However, it will require a period of investment for these innovations to gradually permeate every aspect of our business operations, before we reach a turning point and transform our business development momentum into quantifiable financial returns. We are creating a brand new China Literature to seize this once-in-a-generation opportunity, and we are confident in our long-term prospects.

First Half 2023 Business Highlights

IP Creation

We continued to strengthen the content ecosystem of our online reading business. In the first half of this year, our online reading platform added approximately 200,000 writers, 350,000 literary works and over 19.5 billion Chinese characters. Our high-quality content grew significantly, as we focused on investing in premium content offerings, effective anti-piracy measures, and improved user community. For example, in the first half of this year, the number of online literary works that newly reached 10,000 average subscribers per chapter increased more than 120% year-over-year, and the number of literary works with more than 10,000 monthly votes from users increased more than 50% year-over-year. We also launched new interactive features for our user community, such as official fan communities for popular IP content to enhance reader participation and stickiness. As a result of these measures, our MPUs in the first half of this year achieved considerable growth, increasing 8.6% year-over-year and 12.8% sequentially to 8.8 million.

CEO'S STATEMENT

IP Visualization

We continued to make advances in the visualization of our IP, presenting our users with a series of quality works during the first half of 2023.

- In the TV and film segment, we launched the TV series *The Road to Ordinary* (平凡之路) and *In Spite of the Strong Wind* (縱有疾風起), both of which were highly popular during their broadcast run. *The Road to Ordinary* (平凡之路) ranked first in the Tencent Video drama hit list for 16 consecutive days, first in the China Audio Video Big Data prime-time TV drama ratings for 15 consecutive days, and first in the popularity lists of various third-party professional TV and movie data platforms, such as Maoyan, Dengta, and DataWin. *In Spite of the Strong Wind* (縱有疾風起) ranked in the top two for local TV prime-time drama series ratings nationwide during its broadcast run on Beijing TV and Jiangsu TV.
- In the animation segment, we released new seasons in the first half of the year for our classic IP franchises *Stellar Transformations* (星辰變) and *Almighty Mage* (全職法師), both of which continued to prove popular with viewers. In July 2023, following the end of the first 52-week season of *Battle Through the Heavens* (斗破蒼穹), we immediately launched a second 52-week season of the series, maintaining the title as one of the top three most popular animation series on Tencent Video through continuous content updates.
- In the comics segment, while increasing the number of comics adapted from our online literature works, we are focusing on enhancing our high-quality content offerings. Among which, works such as *Dafeng Guardian* (大奉打更人), *Since the Red Moon Appeared* (從紅月開始), and *Astral Pet Store* (超神寵獸店) attained significant popularity.

IP Commercialization and Monetization

- In the IP merchandise segment, in the first half of the year, we analyzed our IPs with respect to their genres, user demographics and synergies among various media formats such as novels, animation, comics and merchandise, in order to improve our decision-making mechanism for IP screening and merchandise category selection. We are also exploring the possibility of front-loading the development of IP merchandise, that is initiating the development of merchandise at an early stage of online novel creation so that the IP content is better received and recognized by users. We launched a number of key products during the first half of 2023, such as our self-developed blind boxes for *Lord of the Mysteries* (詭秘之主) and *Battle Through the Heavens* (斗破蒼穹).
- In the game segment, we continue to promote the adaptation of our quality IP into games through two business models: licensing and in-house game operation. In terms of licensing, we have been cooperating with high-quality studios to adapt our IP content into games, of which *A Record of a Mortal's Journey to Immortality* (凡人修仙傳) and *Swallowed Star* (吞噬星空) were successfully launched during the first half of this year. In addition, we licensed popular IPs such as *Battle Through the Heavens* (斗破蒼穹) and *Stellar Transformations* (星辰變) to game developers for adaptation, and we look forward to the release of these adapted games in the next few years. In terms of in-house game operation, we launched expansion packs for our classic IP game *New Soul Land* (新斗羅大陸), with new gameplays and upgraded artwork, successfully prolonging the lifecycle of the game.

CEO'S STATEMENT

Overseas Business

As of June 30, 2023, WebNovel, our foreign language online reading platform, offered approximately 3,200 works translated from Chinese and approximately 560,000 original works created locally. We will continue to explore international markets and promote cultural exchange.

Outlook

Looking ahead, we are on the verge of a major turning point in online publishing and IP creation, with new technologies offering limitless opportunity to industry players that are able to harness their potential. I am confident that with our recent organizational upgrades and our established IP metamorphosis strategy, China Literature is ideally situated to exploit the boundless possibilities of AI while maintaining our industry-leading position. We are dedicated to working hand-in-hand with content creators, users and partners to establish China Literature as a household name for the next century, because we know that while markets and technology are constantly changing, good stories live forever.

Sincerely,

Mr. Hou Xiaonan

Executive Director, Chief Executive Officer and President
Hong Kong, August 10, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenues	3,283,026	4,087,214
Cost of revenues	(1,678,264)	(1,940,888)
Gross profit	1,604,762	2,146,326
Interest income	80,137	68,855
Other gains/(losses), net	5,814	(235,409)
Selling and marketing expenses	(822,147)	(1,110,501)
General and administrative expenses	(534,509)	(557,530)
Net provision for impairment losses on financial assets	(23,109)	(60,532)
Operating profit	310,948	251,209
Finance costs, net	(2,820)	(31,604)
Share of net profit of associates and joint ventures	117,461	120,831
Profit before income tax	425,589	340,436
Income tax expense	(49,610)	(108,160)
Profit for the period	375,979	232,276
Attributable to:		
Equity holders of the Company	376,680	228,545
Non-controlling interests	(701)	3,731
	375,979	232,276
Non-IFRS profit for the period	602,418	669,726
Attributable to:		
Equity holders of the Company	603,119	665,995
Non-controlling interests	(701)	3,731
	602,418	669,726

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues. Revenues decreased by 19.7% year-over-year to RMB3,283.0 million for the six months ended June 30, 2023. The following table sets forth our revenues by segment for the six months ended June 30, 2023 and 2022:

	Six months ended June 30,			
	2023		2022	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Online business⁽¹⁾				
On our self-owned platform products	1,763,999	53.7	1,763,077	43.1
On our channels on Tencent products	177,008	5.4	347,482	8.5
On third-party platforms	97,729	3.0	196,457	4.8
Subtotal	2,038,736	62.1	2,307,016	56.4
Intellectual property operations and others⁽²⁾				
Intellectual property operations	1,190,119	36.3	1,731,258	42.4
Others	54,171	1.6	48,940	1.2
Subtotal	1,244,290	37.9	1,780,198	43.6
Total revenues	3,283,026	100.0	4,087,214	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.

MANAGEMENT DISCUSSION AND ANALYSIS

- Revenues from online business decreased by 11.6% year-over-year to RMB2,038.7 million for the six months ended June 30, 2023, accounting for 62.1% of total revenues.

Revenues from online business on our self-owned platform products increased slightly from RMB1,763.1 million for the six months ended June 30, 2022 to RMB1,764.0 million for the six months ended June 30, 2023. During the first half of 2023, revenues from certain products were negatively impacted by strategically decreasing marketing spending on user acquisition with low ROI to improve operational efficiency and better position ourselves for future high-quality growth. This impact was more than offset by revenue growth from our core products driven by our premium content offerings, effective anti-piracy measures, and enhanced product operations.

Revenues from online business on our channels on Tencent products decreased by 49.1% year-over-year to RMB177.0 million for the six months ended June 30, 2023. The decrease was mainly due to (i) initiatives we put in place to optimize distribution channels, and (ii) a decrease in advertising revenues as more of our content was monetized through pay-to-read products with higher ROI.

Revenues from online business on third-party platforms decreased by 50.3% year-over-year to RMB97.7 million for the six months ended June 30, 2023. The decrease was primarily due to the suspension of our collaboration with certain third-party distribution partners.

The following table summarizes our key operating data for the six months ended June 30, 2023 and 2022:

	Six months ended June 30,	
	2023	2022
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	211.7 million	264.7 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	8.8 million	8.1 million
Monthly average revenue per paying user ("ARPU") ⁽¹⁾	RMB33.3	RMB38.8

Note :

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

MANAGEMENT DISCUSSION AND ANALYSIS

- For the six months ended June 30, 2023, average MAUs on our self-owned platform products and self-operated channels were 211.7 million, a decrease of 20.0% year-over-year from 264.7 million. Specifically, MAUs on our self-owned platform products decreased by 12.0% year-over-year from 119.8 million to 105.4 million, mainly due to a decrease in marketing spending on user acquisition with low ROI as we maintain our focus on managing costs and improving operational efficiency. However, MAUs on our self-owned platform products increased 5.2% sequentially compared with the second half of 2022, driven primarily by our effective anti-piracy measures and improved content operations. MAUs on our self-operated channels on Tencent products decreased by 26.6% year-over-year from 144.9 million to 106.3 million, primarily due to the optimization of our content offerings and distribution channels to improve operational efficiency.
 - Average MPUs on our self-owned platform products and self-operated channels increased by 8.6% year-over-year from 8.1 million for the six months ended June 30, 2022 to 8.8 million for the six months ended June 30, 2023. The increase was mainly due to our effective anti-piracy measures, improved product operations, and continued investment in high-quality content offerings.
 - Monthly ARPU for our pay-to-read business decreased by 14.2% year-over-year from RMB38.8 to RMB33.3 for the six months ended June 30, 2023. The decrease was mainly due to (i) changes in revenue mix from different product offerings and (ii) lower user spend from newly converted paying users at the initial stage of the payment cycle.
- Revenues from intellectual property operations and others decreased by 30.1% year-over-year to RMB1,244.3 million for the six months ended June 30, 2023.
- Revenues from intellectual property operations decreased by 31.3% year-over-year to RMB1,190.1 million for the six months ended June 30, 2023, primarily a result of a decrease in revenues generated from TV and web series as well as films due to fewer projects being released during the first half of 2023 when compared with the first half of 2022.
- Revenues from others were RMB54.2 million for the six months ended June 30, 2023, compared with RMB48.9 million for the six months ended June 30, 2022. These revenues were generated primarily by sales of physical books.
- Cost of revenues.* Cost of revenues decreased by 13.5% year-over-year to RMB1,678.3 million for the six months ended June 30, 2023, primarily due to (i) lower production costs of TV, web and animated series and films, which were in line with the decrease in revenues; and (ii) a decrease in platform distribution costs for online businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended June 30,			
	2023		2022	
	RMB'000 (Unaudited)	% of revenues	RMB'000 (Unaudited)	% of revenues
Content costs	751,939	22.9	743,142	18.2
Platform distribution costs	383,224	11.7	475,040	11.6
Production costs of TV, web and animated series and films	268,714	8.2	451,389	11.0
Amortization of intangible assets	74,989	2.3	102,106	2.5
Cost of inventories	38,138	1.2	25,168	0.6
Others	161,260	4.8	144,043	3.6
Total cost of revenues	1,678,264	51.1	1,940,888	47.5

Gross profit and gross margin. As a result of the foregoing, gross profit decreased by 25.2% year-over-year to RMB1,604.8 million for the six months ended June 30, 2023. Gross margin was 48.9% for the six months ended June 30, 2023, compared with 52.5% for the six months ended June 30, 2022.

Interest income. Interest income increased by 16.4% year-over-year to RMB80.1 million for the six months ended June 30, 2023, reflecting higher interest income from bank deposits.

Other gains/(losses), net. We recorded net other gains of RMB5.8 million for the six months ended June 30, 2023, compared with net other losses of RMB235.4 million for the six months ended June 30, 2022. The year-over-year difference was mainly due to a net fair value loss related to certain investee companies and acquisitions in the first half of 2022.

Selling and marketing expenses. Selling and marketing expenses decreased by 26.0% year-over-year to RMB822.1 million for the six months ended June 30, 2023, mainly due to (i) a decrease in promotion and advertising expenses associated with our online businesses as a part of our cost control and efficiency improvement initiatives; and (ii) a decrease in marketing expenses associated with our films and drama series as fewer titles were released during the first half of 2023. As a percentage of revenues, selling and marketing expenses decreased to 25.0% for the six months ended June 30, 2023 from 27.2% for the six months ended June 30, 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

General and administrative expenses. General and administrative expenses decreased by 4.1% year-over-year to RMB534.5 million for the six months ended June 30, 2023, primarily due to lower employee benefits expenses. As a percentage of revenues, general and administrative expenses were 16.3% for the six months ended June 30, 2023, compared with 13.6% for the six months ended June 30, 2022.

Net provision for impairment losses on financial assets. Impairment losses on financial assets reflect a provision for doubtful receivables. For the six months ended June 30, 2023, the provision for doubtful receivables was RMB23.1 million on a net basis, mainly associated with IP businesses.

Operating profit. As a result of the foregoing, operating profit increased by 23.8% year-over-year to RMB310.9 million for the six months ended June 30, 2023.

Finance costs, net. Net finance costs decreased by 91.1% year-over-year to RMB2.8 million for the six months ended June 30, 2023, primarily due to lower interest expenses during the first half of 2023.

Share of net profit of associates and joint ventures. Share of net profit of associates and joint ventures decreased by 2.8% year-over-year to RMB117.5 million for the six months ended June 30, 2023, primarily due to lower net profits contributed by investee companies.

Income tax expense. Income tax expense was RMB49.6 million for the six months ended June 30, 2023, compared with RMB108.2 million for the six months ended June 30, 2022, primarily due to changes in taxable income.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 64.8% year-over-year to RMB376.7 million for the six months ended June 30, 2023.

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 six months ended June 30, 2023 and 2022:

	Six months ended June 30, 2023		
	Online business RMB'000 (Unaudited)	Intellectual property operations and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenues	2,038,736	1,244,290	3,283,026
Cost of revenues	1,018,722	659,542	1,678,264
Gross profit	1,020,014	584,748	1,604,762
Gross margin	50.0%	47.0%	48.9%

	Six months ended June 30, 2022		
	Online business RMB'000 (Unaudited)	Intellectual property operations and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	1,146,745	794,143	1,940,888
Gross profit	1,160,271	986,055	2,146,326
Gross margin	50.3%	55.4%	52.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Other Financial Information

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
EBITDA ⁽¹⁾	372,213	600,560
Adjusted EBITDA ⁽²⁾	471,354	745,058
Adjusted EBITDA margin ⁽³⁾	14.4%	18.2%
Interest expense	11,553	34,095
Net cash ⁽⁴⁾	7,541,645	6,555,723
Capital expenditures ⁽⁵⁾	99,296	136,603

Notes :

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating profit	310,948	251,209
Adjustments:		
Interest income	(80,137)	(68,855)
Other (gains)/losses, net	(5,814)	235,409
Depreciation of property, plant and equipment	17,007	9,598
Depreciation of right-of-use assets	38,437	49,927
Amortization of intangible assets	91,772	123,272
EBITDA	372,213	600,560
Adjustments:		
Share-based compensation	70,892	116,659
Expenditures related to acquisition	28,249	27,839
Adjusted EBITDA	471,354	745,058

Non-IFRS Financial Measures

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating profit, non-IFRS operating margin, non-IFRS profit for the period, non-IFRS net margin, non-IFRS profit attributable to equity holders of the Company, non-IFRS basic EPS and non-IFRS diluted EPS as additional financial measures, have been presented in this interim 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 non-IFRS financial measures may be defined differently from similar terms used by other companies. In addition, non-IFRS adjustments include relevant non-IFRS

adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the reconciliations of our Group's non-IFRS financial measures for the six months ended June 30, 2023 and 2022 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2023						
	As reported	Adjustments				Tax effect	Non-IFRS
		Share-based compensation	Net losses from investments and acquisitions ⁽¹⁾ (RMB' 000, unless specified)	Amortization of intangible assets ⁽²⁾			
Operating profit	310,948	70,892	153,923	10,085	-	545,848	
Profit for the period	375,979	70,892	147,219	10,085	(1,757)	602,418	
Profit attributable to equity holders of the Company	376,680	70,892	147,219	10,085	(1,757)	603,119	
EPS (RMB per share)							
- basic	0.37					0.60	
- diluted	0.37					0.59	
Operating margin	9.5%					16.6%	
Net margin	11.5%					18.3%	

	Unaudited six months ended June 30, 2022						
	As reported	Adjustments				Tax effect	Non-IFRS
		Share-based compensation	Net losses from investments and acquisitions ⁽¹⁾ (RMB' 000, unless specified)	Amortization of intangible assets ⁽²⁾			
Operating profit	251,209	116,659	305,897	20,059	-	693,824	
Profit for the period	232,276	116,659	305,897	20,059	(5,165)	669,726	
Profit attributable to equity holders of the Company	228,545	116,659	305,897	20,059	(5,165)	665,995	
EPS (RMB per share)							
- basic	0.23					0.66	
- diluted	0.22					0.65	
Operating margin	6.1%					17.0%	
Net margin	5.7%					16.4%	

Notes :

- (1) This item mainly includes the disposal (gain)/loss, impairment provision and the fair value changes arising from our investee companies, the fair value changes of consideration liabilities related to the acquisition of NCM, and the compensation costs for certain employees and former owners of NCM.
- (2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The Company maintained a healthy and sound financial position during the six months under review. Total assets decreased from RMB22,734.5 million as of December 31, 2022 to RMB22,374.1 million as of June 30, 2023, while our total liabilities decreased from RMB4,779.8 million as of December 31, 2022 to RMB3,810.5 million as of June 30, 2023. The liabilities-to-assets ratio decreased from 21.0% as of December 31, 2022 to 17.0% as of June 30, 2023.

As of June 30, 2023, the current ratio (the ratio of total current assets to total current liabilities) was 361.6%, compared with 313.2% as of December 31, 2022.

As of June 30, 2023 and December 31, 2022, our Group had no pledged notes receivables.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, and cash generated from our operations. As of June 30, 2023, our Group had net cash of RMB7,541.6 million, compared with RMB7,091.4 million as of December 31, 2022. The increase in net cash in the first half of 2023 was mainly due to the cash generated from our operating activities and the sale of a portion of our equity interest in portfolio companies, partially offset by capital expenditures and the earn-out cash consideration paid for the acquisition of NCM based on its 2022 financial performance. For the six months ended June 30, 2023, our Group had free cash flow of RMB475.7 million. This was a result of net cash flow generated from operating activities of RMB615.6 million, deducting payments for lease liabilities of RMB40.7 million and payments for capital expenditures of RMB99.3 million. Our bank balances and term

deposits are primarily in RMB, USD and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2023:

- Our gearing ratio was nil, compared with 2.3% as of December 31, 2022.
- Our total borrowings were nil.
- Our unutilized banking facility was RMB1,770.0 million.

As of June 30, 2023 and December 31, 2022, our Group had no significant contingent liabilities.

As of June 30, 2023 and December 31, 2022, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures were primarily expenditures for intangible assets, such as content and software copyrights, and for property, plant and equipment. Our capital expenditures and long-term investments for the six months ended June 30, 2023 totalled RMB133.3 million, compared with RMB157.5 million for the six months ended June 30, 2022, representing a year-over-year decrease of RMB24.2 million which was primarily due to less capital expenditures in the first half of 2023. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flow generated from our operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily RMB, HKD, USD, JPY and SGD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, or forward foreign exchange contracts, when necessary. We did not hedge against foreign currency movements during the six months ended June 30, 2023 and 2022.

Employees

As of June 30, 2023, we had approximately 1,720 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

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

New Classics Media

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in TV series, web series and film production and distribution in China. NCM, on a standalone basis, recorded RMB543.6 million in revenues and RMB172.0 million in profit attributable to equity holders of the company for the six months ended June 30, 2023.

No Material Changes

Since the publication of our audited financial statements for the year ended December 31, 2022 on March 16, 2023, there have been no material changes to our business.

OTHER INFORMATION

Corporate Governance

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

During the six months ended June 30, 2023, the Company has complied with all the applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2023.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2023 (2022: Nil).

Audit Committee

The Audit Committee, together with the Board and the Auditor, has reviewed the interim results of the Group for the six months ended June 30, 2023. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and internal control systems of the Company, and considered the risk management and internal control systems to be effective and adequate.

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Changes of Directors' Information

Changes of Directors' information since the publication of the Company's 2022 annual report are set out below:

- Mr. Hou Xiaonan, being an executive Director and the president of the Company, has been appointed as Chief Executive Officer and redesignated as the chairman of the Strategy and Investment Committee of the Board with effect from May 10, 2023.
- Mr. Xie Qinghua has been appointed as a non-executive Director and the member of Audit Committee on May 22, 2023.
- Mr. Huang Yan has been appointed as an executive Director on June 30, 2023.
- Mr. Cheng Wu resigned as an executive Director, Chief Executive Officer and the chairman of the Strategy and Investment Committee of the Board with effect from May 10, 2023.
- Mr. Cheng Yun Ming Matthew has retired from office as non-Executive Director and has also ceased to be a member of the Audit Committee on May 22, 2023.
- Mr. Zou Zhengyu resigned as a non-executive Director and the member of the Strategy and Investment Committee of the Board on June 30, 2023.

OTHER INFORMATION

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

As of June 30, 2023, 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	331,352	Long position	0.03
Mr. Cao Huayi	Interest in controlled corporations	41,366,571 ⁽²⁾	Long position	4.06
Mr. Hou Xiaonan	Beneficial owner	2,305,882 ⁽³⁾	Long position	0.23
Mr. Huang Yan	Beneficial owner	2,623,141 ⁽⁴⁾	Long position	0.26

OTHER INFORMATION

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	15,950,145 ⁽⁵⁾	0.17
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	139,713 ⁽⁶⁾	0.00
Mr. Huang Yan	Tencent Holdings Limited	Beneficial owner	22,500	0.00
Mr. Xie Qinghua	Tencent Holdings Limited	Beneficial owner	148,446 ⁽⁷⁾	0.00
Mr. Cao Huayi	Tencent Holdings Limited	Interest in controlled corporations	270,000 ⁽⁸⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,018,259,788 Shares in issue as of June 30, 2023.
- (2) As at June 30, 2023, 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 35,117,461 Shares and 6,249,110 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (3) As at June 30, 2023, these interests comprised (i) 56,036 Shares, (ii) 56,036 underlying Shares in respect of the RSUs granted to Mr. Hou Xiaonan under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,193,750 underlying Shares in respect of the Options granted to Mr. Hou Xiaonan under the Share Option Plan.
- (4) As at June 30, 2023, these interests comprised (i) 108,120 Shares, (ii) 368,480 underlying Shares in respect of the RSUs granted to Mr. Huang Yan under 2014 Restricted Share Unit Scheme of the Company, and (iii) 2,146,541 underlying Shares in respect of the Options granted to Mr. Huang Yan under the Share Option Plan.
- (5) As at June 30, 2023, these interests comprised (i) 5,168,076 shares of Tencent, (ii) 1,144,220 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 9,637,849 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 June 30, 2023, these interests comprised (i) 135,946 shares of Tencent, and (ii) 3,767 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.
- (7) As at June 30, 2023, these interests comprised (i) 47,578 shares of Tencent, (ii) 100,798 shares underlying Tencent in respect of the awarded shares granted to Mr. Xie Qinghua under share award schemes of Tencent, and (iii) 70 shares underlying Tencent in respect of the options granted to Mr. Xie Qinghua 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 June 30, 2023, Mr. Cao Huayi was interested in 100% of C-Hero Limited and was therefore deemed to be interested in the 270,000 shares interested in by C-Hero Limited.

OTHER INFORMATION

Save as disclosed above, as of June 30, 2023, none of the Directors and 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 six months ended 30 June 2023, 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 June 30, 2023, 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	Interest in controlled corporations	577,643,604	Long position	56.73
THL A13 ⁽²⁾	Beneficial owner	268,600,500	Long position	26.38
Qinghai Lake ⁽²⁾	Beneficial owner	230,705,634	Long position	22.66
Tencent Mobility Limited ⁽²⁾	Beneficial owner	78,337,470	Long position	7.69

OTHER INFORMATION

Notes:

- (1) The calculation is based on the total number of 1,018,259,788 Shares in issue as of June 30, 2023.
- (2) As at June 30, 2023, THL A13, Qinghai Lake, Tencent Mobility Limited were wholly-owned subsidiaries of Tencent. Under the SFO, Tencent was deemed to be interested in 577,643,604 Shares directly held by THL A13, Qinghai Lake, and Tencent Mobility Limited in aggregate.

Save as disclosed above, as of June 30, 2023, 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.

OTHER INFORMATION

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 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.

Amount payable on acceptance of the RSUs granted

The grant shall be made at no consideration to selected participants.

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.

OTHER INFORMATION

Details of the RSUs Granted under the RSU Plan

The RSUs granted in respect of 18,552,500 underlying Shares 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.

The RSUs granted in respect of 5,782,500 underlying Shares 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.

The RSUs granted in respect of 7,100,000 underlying Shares 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.

The RSUs granted in respect of 3,900,500 underlying Shares 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.

The RSUs granted in respect of 5,690,000 underlying Shares 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 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 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.

The RSUs granted in respect of 2,035,302 underlying Shares on January 10, April 6, August 18 and December 28, 2022 have a vesting period of five years, one-fifth of which will each vest on January 10, April 6, August 18 and December 28, 2023, 2024, 2025, 2026 and 2027 respectively.

The RSUs granted in respect of 100,243 underlying Shares on May 23, 2023 have a vesting period of five years, one-fifth of which will each vest on May 23, 2024, 2025, 2026, 2027 and 2028 respectively.

OTHER INFORMATION

Movements of the RSUs grants by the Company pursuant to the RSU Plan are set out below:

Selected Grantees	Date of Grant	Number of RSUs					As at June 30, 2023	Vesting Period	Closing Price of the Shares immediately before the Date of Grant HKD	Fair value of RSUs at the Date of Grant per Share during the six months ended June 30, 2023 ⁽³⁾ HKD
		As at January 1, 2023	Granted during the six months ended June 30, 2023 ⁽¹⁾	Vested during the six months ended June 30, 2023 ⁽²⁾	Forfeited during the six months ended June 30, 2023	Cancelled during the six months ended June 30, 2023				
Huang Yan ⁽⁴⁾	November 5, 2021	368,480	-	-	-	-	368,480	November 5, 2022 – November 5, 2026	53.25	
Employee Participants 5 highest paid individuals during the six months ended June 30, 2023 (in aggregate)	November 5, 2019	20,000	-	-	-	-	20,000	November 5, 2020 – November 5, 2024	30.65	
Employees (excluding 5 highest paid individuals) (in aggregate)	October 29, 2018	248,000	-	-	13,000	-	235,000	October 29, 2019 – October 29, 2023	40.85	
	April 10, 2019	94,000	-	47,000	-	-	47,000	April 10, 2020 – April 10, 2024	38.35	
	July 10, 2019	59,200	-	-	-	-	59,200	July 10, 2020 – July 10, 2024	37.20	
	November 5, 2019	1,197,200	-	-	59,200	-	1,138,000	November 5, 2020 – November 5, 2024	30.65	
	April 9, 2020	117,000	-	39,000	-	-	78,000	April 9, 2021 – April 9, 2025	31.05	
	September 4, 2020	249,101	-	-	54,101	-	195,000	September 4, 2021 – September 4, 2025	55.95	
	January 4, 2021	400,829	-	100,201	115,853	-	184,775	January 4, 2022 – January 4, 2026	60.85	
	April 12, 2021	99,292	-	24,820	-	-	74,472	April 12, 2022 – April 12, 2026	78.00	
	July 12, 2021	30,172	-	-	-	-	30,172	July 12, 2022 – July 12, 2026	80.65	
	October 18, 2021	331,803	-	-	126,674	-	205,129	October 18, 2022 – October 18, 2026	56.8	
	November 5, 2021	87,514	-	-	-	-	87,514	November 5, 2022 – November 5, 2026	53.25	
	January 10, 2022	810,325	-	162,061	-	-	648,264	January 10, 2023 – January 10, 2027	48.25	
	April 6, 2022	955,921	-	191,175	-	-	764,746	April 6, 2023 – April 6, 2027	34.40	
August 18, 2022	164,400	-	-	44,400	-	120,000	August 18, 2023 – August 18, 2027	29.40		
December 28, 2022	89,220	-	-	-	-	89,220	December 28, 2023 – December 28, 2027	29.85		
May 23, 2023	-	100,243	-	-	-	100,243	May 23, 2024 – May 23, 2028	31.85	31.10	
Total		5,322,457	100,243	564,257	413,228	-	4,445,215			

OTHER INFORMATION

Notes:

- The RSUs were granted at nil purchase price.
- For Employee Participants (including Directors) as set out in the table above, the weighted average closing price of the Shares immediately before the dates on which the awards were vested in the six months ended June 30, 2023 was HKD38.30 per Share.
- The fair value of each RSUs was calculated based on the market price of the Shares at the respective grant date. The expected dividends during the vesting period had been taken into account when assessing the fair value of these RSUs.
- Mr. Huang Yan has been appointed as an executive Director on June 30, 2023.
- None of the grants of awards to any participant is in excess of the 1% individual limit.
- All of the grants made during the six months ended June 30, 2023 were made without any performance targets.
- During the reporting period, no RSUs were lapsed under the RSU Plan.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2023	5,322,457
Granted	100,243
Forfeited	(413,228)
Vested	(564,257)
Cancelled	–
Outstanding balance as of June 30, 2023	4,445,215
As of January 1, 2022	7,304,840
Granted	1,781,682
Forfeited	(467,517)
Vested	(968,333)
Cancelled	–
Outstanding balance as of June 30, 2022	7,650,672

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 and amended by the Shareholders' resolution passed on May 22, 2023.

Effectiveness and Duration

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the 2020 Restricted Share Unit Scheme shall be valid and effective for a period of ten years commencing on May 15, 2020, after which no awards will be granted, but the provisions of the 2020 Restricted Share Unit Scheme shall in all other respects remain in full force and effect and the awards granted during the term of the 2020 Restricted Share Unit Scheme may continue to be valid in accordance with their respective terms of grant.

OTHER INFORMATION

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.

Eligible Participants

The participants of the 2020 Restricted Share Unit Scheme 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 subsidiary of the Group or any related entity; and (ii) any service provider who, in the sole opinion of the Board, has contributed or will contribute to the growth and development of the Group and qualifies by in the interests of the long term growth of the Group. For the avoidance of doubt, the participants shall exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions, and professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity. The basis of eligibility of any participant to be granted RSUs under the 2020 Restricted Share Unit Scheme shall be determined by the Board/Chairman (as the case may be) from time to time on the basis of the participant's contribution or potential contribution to the development and growth of the Group, or such other factors as the Board may deem appropriate.

Scheme Limit

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the total number of Shares underlying the 2020 Restricted Share Unit Scheme shall not in aggregate exceed 45,710,177 Shares, representing 4.5% of the issued share capital of the Company as of June 30, 2020 and 4.5% of the total issued share capital of the Company as at the of this interim report. 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.

Without prejudice to the foregoing, the total number of Shares to be issued to the service providers underlying the 2020 Restricted Share Unit Scheme and other share schemes of the Group shall not in aggregate exceed 5,076,192 Shares, representing approximately 0.5% of the total number of Shares as at May 22, 2023.

The total number of Shares which may be issued in respect of all RSUs to be granted under the 2020 Restricted Share Unit Scheme, and all options and awards to be granted under any other schemes of the Group as refreshed must not exceed 10% of the total issued Shares as at June 30, 2020. The Company will be allowed to issue a maximum of 101,578,171 Shares under share schemes of the Group, representing approximately 10% of the number of issued Shares as at May 22, 2023 or the maximum number of Shares in accordance with the Share Option Plan (whichever is lower).

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 in issue.

OTHER INFORMATION

Administration

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, 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 appointed a trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme. The trustee holding unvested shares of a share scheme, whether directly or indirectly, shall abstain from voting on matters that require Shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given.

Subject to the terms and conditions of the 2020 Restricted Share Unit Scheme, the Board shall have the sole and absolute right to, among others, determine the a grantee 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 ("Senior Grantees") who will be granted awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which awards are granted to 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 any grantee other than a Senior Grantee (the "Junior Grantees") 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 Administrative Committee 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.

Any change to the terms of awards granted to a participant must be approved by the Board, the remuneration committee of the Company, the independent Non-Executive Directors and/or the Shareholders (as the case may be) if the initial grant of the awards was approved by the Board, the remuneration committee of the Company, the independent Non-Executive Directors and/or the Shareholders (as the case may be). This requirement does not apply where the alterations take effect automatically under the existing terms of the 2020 Restricted Share Unit Scheme.

Grant and Vesting

Subject to otherwise determined by the Board at its sole absolute discretion, the Senior Grantee is not required to pay any grant or purchase price or make any other payment to the Company to accept the RSUs granted; and subject to otherwise determined by the Chairman at his sole absolute discretion, the Junior Grantee is not required to pay any grant or purchase price or make any grant or purchase price or make any other payment to the Company to accept the RSUs granted.

OTHER INFORMATION

Subject to the terms of the 2020 Restricted Share Unit Scheme and the specific terms and conditions applicable to each award, the vesting period shall be determined by the Board or the Chairman (as the case may be), and in no case the vesting period of shall be less than twelve (12) months or such period as the Listing Rules may prescribe or permit.

The RSUs which have vested shall be satisfied within a reasonable period from the vesting date of such RSUs, either by: (a) the administrative committee directing and procuring the relevant trustee to transfer the Shares underlying the RSUs; and/or (b) the administrative committee directing and procuring the trustee to pay to the grantee in cash an amount which is equivalent to the market value of the Shares.

The 2020 Restricted Share Unit Scheme does not provide for any performance target that must be achieved before the award(s) can be vested.

For further details of the 2020 Restricted Share Unit Scheme, please refer to the announcement of the Company dated April 28, 2023 and the circular of the Company dated April 28, 2023.

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

The RSUs granted in respect of 4,162,633 underlying Shares on September 1, 2020 have a vesting period of four years, one-fourth 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 on April 12, July 12 and September 16, 2021 have a vesting period of four years, one-fourth of which will each vest on April 12, July 12 and September 16, 2022, 2023, 2024, and 2025 respectively.

The RSUs granted in respect of 4,205,077 underlying Shares on August 18, October 12 and December 28, 2022 have a vesting period of four years, one-fourth of which will each vest on August 18, October 12 and December 28, 2023, 2024, 2025 and 2026 respectively.

The RSUs granted in respect of 2,187 underlying Shares on May 23, 2023 have a vesting period of two years, one half of which will each vest on May 23, 2024 and 2025, respectively.

OTHER INFORMATION

Movements of the RSUs granted by the Company pursuant to the 2020 Restricted Share Unit scheme during the reporting period are set out below:

Selected Grantees	Date of Grant	Number of RSUs					As at June 30, 2023	Vesting Period	Closing Price of the Shares immediately before the Date of Grant HKD	Fair value of RSUs at the Date of Grant per Share during the six months ended June 30, 2023 ⁽¹⁾ HKD
		As at January 1, 2023	Granted during the six months ended June 30, 2023 ⁽¹⁾	Vested during the six months ended June 30, 2023 ⁽²⁾	Lapsed during the six months ended June 30, 2023	Cancelled during the six months ended June 30, 2023				
Directors Hou Xiaonan	September 1, 2020	56,036	-	-	-	-	56,036	September 1, 2021 – September 1, 2024	48.15	
Cheng Wu ⁽⁴⁾	September 1, 2020	112,072	-	-	112,072	-	-	September 1, 2021 – September 1, 2022	48.15	
	August 18, 2022	80,700	-	-	40,350	-	40,350	August 18, 2023	29.40	
Employee Participants 5 highest paid individuals during the financial year (in aggregate)	September 1, 2020	141,212	-	-	-	-	141,212	September 1, 2021 – September 1, 2024	48.15	
Employees (excluding 5 highest paid individuals) (in aggregate)	September 1, 2020	1,072,407	-	-	62,704	-	1,009,703	September 1, 2021 – September 1, 2024	48.15	
	April 12, 2021	32,888	-	10,962	-	-	21,926	April 12, 2022 – April 12, 2025	78.00	
	July 12, 2021	1,115,799	-	-	60,363	-	1,055,436	July 12, 2022 – July 12, 2025	80.65	
	September 16, 2021	44,505	-	-	2,967	-	41,538	September 16, 2022 – September 16, 2025	65.10	
	August 18, 2022	3,493,301	-	-	181,020	-	3,312,281	August 18, 2023 – August 18, 2026	29.40	
	October 12, 2022	484,295	-	-	92,878	-	391,417	October 12, 2023 – October 12, 2026	20.30	
	December 28, 2022	57,101	-	-	-	-	57,101	December 28, 2023 – December 28, 2026	29.85	
	May 23, 2023	-	2,187	-	-	-	2,187	May 23, 2024 – May 23, 2025	31.85	31.10
Total		6,690,316	2,187	10,962	552,354	-	6,129,187			

Notes:

- The RSUs were granted at nil purchase price.
- For Employee Participants (including Directors) as set out in the table above, the weighted average closing price of the Shares immediately before the date on which the awards were vested in the six months ended June 30, 2023 was HKD41.5 per Share.
- The fair value of each RSUs was calculated based on the market price of the Shares at the respective grant date. The expected dividends during the vesting period had been taken into account when assessing the fair value of these RSUs.
- Mr. Cheng Wu resigned as an executive Director with effect from May 10, 2023. According to the 2020 Restricted Share Unit Scheme, 112,072 RSUs and 40,350 RSUs which were granted to Mr. Cheng Wu on September 1, 2020 and August 18, 2022, respectively, lapsed upon his resignation.
- None of the grants of awards to any participant is in excess of the 1% individual limit.
- All of the grants made during the six months ended June 30, 2023 were made without any performance targets.
- As at January 1, 2023 and June 30, 2023, the total numbers of RSUs available for grant under the 2020 Restricted Share Unit Scheme were 37,008,888 and 37,559,055, respectively.
- As at June 30, 2023, the total number of Shares underlying the RSUs available for grant under the Service Provider Sublimit was 5,076,192.

OTHER INFORMATION

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2023	6,690,316
Granted	2,187
Lapsed	(552,354)
Vested	(10,962)
Cancelled	–
Outstanding balance as of June 30, 2023	6,129,187
As of January 1, 2022	4,351,636
Granted	–
Lapsed	(419,548)
Vested	(10,962)
Cancelled	–
Outstanding balance as of June 30, 2022	3,921,126

Share Option Plan

Pursuant to a resolution passed at the annual general meeting held on May 24, 2021, the Company adopted a share option plan and amended by the Shareholders' resolution passed on May 22, 2023. The purpose of the Share Option Plan provide incentives and rewards to directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of the Company. The Share Option Plan is valid and effective for a period of 10 years commencing on May 24, 2021. Following the expiry of the Share Option Plan, no further share option can be granted under the Share Option Plan, but the provisions of the Share Option Plan will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Plan.

For further details of the Share Option Plan, please refer to the announcement of the Company dated April 28, 2023 and the circular of the Company dated April 28, 2023.

OTHER INFORMATION

Details of the Options Granted under the Share Option Plan

Movements of the options granted by the Company pursuant to the Share Option Plan during the reporting period are set out below:

Name	Position	Date of grant	Number of Options					As at June 30, 2023	Exercise price HKD	Exercise period	Closing Price of the Options immediately before the Date of Grant HKD
			As at January 1, 2023	Granted during the six months ended June 30, 2023	Exercised during the six months ended June 30, 2023	Lapsed during the six months ended June 30, 2023 ⁽⁴⁾	Cancelled during the six months ended June 30, 2023				
Hou Xiaonan	Director	July 12, 2021	543,750	-	-	-	-	543,750	82.85	July 12, 2021 – July 11, 2031 (Note 1)	80.65
		August 18, 2022	1,650,000	-	-	-	-	1,650,000	30.69	August 18, 2022 – August 17, 2032 (Note 2)	29.40
Huang Yan ⁽⁶⁾	Director	November 5, 2021	1,786,539	-	-	-	-	1,786,539	53.14	November 5, 2021 – November 4, 2031 (Note 3)	53.25
		August 18, 2022	360,002	-	-	-	-	360,002	30.69	August 18, 2022 – August 17, 2032 (Note 3)	29.40
Cheng Wu ⁽⁷⁾	Director	July 12, 2021	725,000	-	-	-	-	725,000	82.85	July 12, 2021 – June 30, 2024 (Note 1)	80.65
		August 18, 2022	2,200,000	-	-	733,334	-	1,466,666	30.69	August 18, 2022 – June 30, 2024 (Note 2)	29.40
Total			7,265,291	-	-	733,334	-	6,531,957			

Notes:

- For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
- For options granted with exercisable date determined based on the grant date of options, the first 33.33% of the total options can be exercised after the grant date, and each 33.33% of the total options will become exercisable in each subsequent year.
- 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 become exercisable in each subsequent year.
- During the reporting period, 733,334 options granted to the Directors were lapsed and the exercise price of the lapsed options was HKD30.69. Save as disclosed in this report, no options were granted, exercised or cancelled during the six months ended June 30, 2023.
- An amount of RMB1.00 was paid by the grantee to the Company upon acceptance of the offer of options.
- Mr. Huang Yan has been appointed as an executive Director on June 30, 2023.
- Mr. Cheng Wu resigned as an executive Director with effect from May 10, 2023.

OTHER INFORMATION

Details of movements of outstanding options granted to employees of the Group (apart from Directors) who are independent third parties of the Company during the six months ended June 30, 2023 are as follows:

Date of grant	Number of Options					As at June 30, 2023	Exercise price HKD	Exercise period	Closing Price of the Shares immediately before the Date of Grant HKD
	As at January 1, 2023	Granted during the six months ended June 30, 2023	Exercised during the six months ended June 30, 2023	Lapsed during the six months ended June 30, 2023 ^(a)	Cancelled during the six months ended June 30, 2023				
July 12, 2021	878,519	-	-	55,705	-	822,814	82.85	July 12, 2021 – July 11, 2031 (Note 1)	80.65
August 18, 2022	1,099,203	-	-	-	-	1,099,203	30.69	August 18, 2022 – August 17, 2032 (Note 1)	29.40
	1,977,722	-	-	55,705	-	1,922,017			

Notes:

- 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.
- During the reporting period, 55,705 options granted to the employees were lapsed and the exercise price of the lapsed options was HKD82.85. Save as disclosed in this report, no options were granted, exercised or cancelled during the six months ended June 30, 2023.
- An amount of RMB1.00 was paid by the grantee to the Company upon acceptance of the offer of options.
- None of the grants of options to any participant is in excess of the 1% individual limit.
- As at June 30, 2023, the total numbers of Shares underlying options available for grant under the Service Provider Sublimit was 5,076,192.

OTHER INFORMATION

Movements in the number of options outstanding are as follows:

	Number of Options
As of January 1, 2023	9,243,013
Granted	–
Lapsed	789,039
Cancelled	–
Outstanding balance as of June 30, 2023	8,453,974
Exercisable as of June 30, 2023	3,204,417

The total number of options available for grant under the Share Option Plan is 13,209,917, which represents approximately 1.3% of the issued shares of the Company as at the date of this interim report.

As at January 1, 2023 and June 30, 2023, the total numbers of options available for grant under the Share Option Plan were 12,420,878 and 13,209,917, respectively.

The total number of Shares that may be issued in respect of options and awards under all schemes of the Company during the six months ended June 30, 2023 divided by the weighted average number of Shares in issue for the six months ended June 30, 2023 was 0.01%.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To the Board of Directors of China Literature Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 40 to 88, which comprises the interim condensed consolidated statement of financial position of China Literature Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2023 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 10, 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2023

	Note	Six months ended June 30,	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenues	8	3,283,026	4,087,214
Cost of revenues	9	(1,678,264)	(1,940,888)
Gross profit		1,604,762	2,146,326
Interest income	10	80,137	68,855
Other gains/(losses), net	11	5,814	(235,409)
Selling and marketing expenses	9	(822,147)	(1,110,501)
General and administrative expenses	9	(534,509)	(557,530)
Net provision for impairment losses on financial assets		(23,109)	(60,532)
Operating profit		310,948	251,209
Finance costs, net	12	(2,820)	(31,604)
Share of net profit of associates and joint ventures	19	117,461	120,831
Profit before income tax		425,589	340,436
Income tax expense	13	(49,610)	(108,160)
Profit for the period		375,979	232,276
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive loss of associates		(4,865)	(458)
Currency translation differences		(48,497)	46,071
<i>Items that may not be reclassified to profit or loss</i>			
Net loss from change in fair value of financial asset at fair value through other comprehensive income		(4,122)	(6,571)
Share of other comprehensive income of an associate		3,098	–
Currency translation differences		125,648	71,819
		71,262	110,861
Total comprehensive income for the period		447,241	343,137
Profit attributable to:			
– Equity holders of the Company		376,680	228,545
– Non-controlling interests		(701)	3,731
		375,979	232,276
Total comprehensive income attributable to:			
– Equity holders of the Company		447,912	339,414
– Non-controlling interests		(671)	3,723
		447,241	343,137
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	14(a)	0.37	0.23
– Diluted earnings per share	14(b)	0.37	0.22

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2023

	Note	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	121,519	132,858
Right-of-use assets	17	225,671	183,141
Intangible assets	18	7,413,232	7,421,639
Investments in associates and joint ventures	19	1,112,888	1,008,754
Financial assets at fair value through profit or loss	21	799,430	862,241
Financial asset at fair value through other comprehensive income	22	5,165	8,009
Deferred income tax assets	23	342,919	312,283
Prepayments, deposits and other assets	24	284,319	329,641
Term deposits		485,000	–
		10,790,143	10,258,566
Current assets			
Inventories	25	752,377	760,271
Television series and film rights	26	850,278	940,412
Financial assets at fair value through profit or loss	21	2,787,292	119,329
Trade and notes receivables	27	1,820,841	2,048,930
Prepayments, deposits and other assets	24	1,099,301	1,212,544
Term deposits		913,947	1,848,660
Cash and cash equivalents		3,359,906	5,545,766
		11,583,942	12,475,912
Total assets		22,374,085	22,734,478
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		646	644
Shares held for RSU scheme		(18,766)	(18,766)
Share premium		16,310,617	16,223,277
Other reserves		2,097,245	1,955,121
Retained earnings/(accumulated losses)		173,742	(202,938)
		18,563,484	17,957,338
Non-controlling interests		89	(2,616)
Total equity		18,563,573	17,954,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2023

	Note	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	17	178,868	134,595
Long-term payables		2,921	4,691
Deferred income tax liabilities	23	137,266	139,563
Deferred revenue		25,385	26,538
Financial liabilities at fair value through profit or loss	32	262,472	490,613
		606,912	796,000
Current liabilities			
Borrowings	29	–	417,876
Lease liabilities	17	61,714	65,505
Trade payables	30	1,032,440	1,203,873
Other payables and accruals	31	811,988	1,019,435
Deferred revenue		698,438	619,125
Current income tax liabilities		228,308	275,780
Financial liabilities at fair value through profit or loss	32	370,712	382,162
		3,203,600	3,983,756
Total liabilities		3,810,512	4,779,756
Total equity and liabilities		22,374,085	22,734,478

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

On behalf of the board of directors

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2023

	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	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
(Unaudited)								
As of January 1, 2023	644	16,223,277	(18,766)	1,955,121	(202,938)	17,957,338	(2,616)	17,954,722
Comprehensive income								
Profit for the period	-	-	-	-	376,680	376,680	(701)	375,979
Other comprehensive income								
- Share of other comprehensive loss of an associate (Note 19)	-	-	-	(1,767)	-	(1,767)	-	(1,767)
- Currency translation differences	-	-	-	77,121	-	77,121	30	77,151
- Net loss from change in fair value of financial asset at fair value through other comprehensive income (Note 22)	-	-	-	(4,122)	-	(4,122)	-	(4,122)
Total comprehensive income for the period	-	-	-	71,232	376,680	447,912	(671)	447,241
Transaction with owners								
Share-based compensation expenses	-	-	-	70,892	-	70,892	-	70,892
Issue of ordinary shares as consideration for a business combination	2	87,340	-	-	-	87,342	-	87,342
Capital injection	-	-	-	-	-	-	3,376	3,376
Transactions with owners in their capacity for the period	2	87,340	-	70,892	-	158,234	3,376	161,610
As of June 30, 2023	646	16,310,617	(18,766)	2,097,245	173,742	18,563,484	89	18,563,573

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2023

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital	Share premium	Shares held		Accumulated losses	Sub-total	Non-controlling interests		
			for RSU scheme	Other reserves					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)									
As of January 1, 2022	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971	
Comprehensive income									
Profit for the period	-	-	-	-	228,545	228,545	3,731	232,276	
Other comprehensive income									
- Share of other comprehensive loss of associates and a joint venture (Note 19)	-	-	-	(458)	-	(458)	-	(458)	
- Currency translation differences	-	-	-	117,898	-	117,898	(8)	117,890	
- Net loss from change in fair value of financial asset at fair value through other comprehensive income (Note 22)	-	-	-	(6,571)	-	(6,571)	-	(6,571)	
Total comprehensive income for the period	-	-	-	110,869	228,545	339,414	3,723	343,137	
Transaction with owners									
Share-based compensation expenses	-	-	-	116,659	-	116,659	-	116,659	
Transfer of vested RSUs	-	(41,121)	-	-	-	(41,121)	-	(41,121)	
Issue of ordinary shares as consideration for a business combination	-	31,419	-	-	-	31,419	-	31,419	
Acquisition of non-controlling interests	-	-	-	(2,483)	-	(2,483)	(2,416)	(4,899)	
Disposal of a non-wholly owned subsidiary	-	-	-	-	-	-	(1,357)	(1,357)	
Transactions with owners in their capacity for the period	-	(9,702)	-	114,176	-	104,474	(3,773)	100,701	
As of June 30, 2022	649	16,403,026	(17,450)	1,680,146	(436,028)	17,630,343	466	17,630,809	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2023

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	719,577	969,592
Income tax paid	(103,939)	(262,825)
Net cash generated from operating activities	615,638	706,767
Cash flows from investing activities		
Net cash outflow arising from disposal of a subsidiary	–	(13,989)
Placements of term deposits with initial term of over three months	(2,564,795)	(2,360,266)
Receipts from maturity of term deposits with initial term of over three months	3,033,053	2,626,507
Payment for acquisition of financial assets at fair value through profit or loss	(2,800,134)	(18,991)
Proceeds from disposals or settlement of financial assets at fair value through profit or loss	148,892	9,231
Payment for investments in an associate and joint ventures	(17,540)	(1,903)
Purchase of property, plant and equipment	(14,077)	(31,745)
Purchase of intangible assets	(85,219)	(104,858)
Proceeds from disposals of property, plant and equipment	1,499	138
Interest received	48,843	63,292
Settlement of contingent consideration payable	(204,026)	(68,010)
Proceeds from disposal of investment in an associate	69,195	–
Loan lent to a related party	(5,000)	–
Proceeds from settlement of loan lent to a former subsidiary	6,766	6,700
Net cash (used in)/generated from investing activities	(2,382,543)	106,106

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2023

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from financing activities		
Proceeds from borrowings	–	239,066
Repayments of borrowings	(417,876)	(839,642)
Finance costs paid	(11,602)	(35,642)
Proceeds from financial investors in television series and films	536	–
Repayments to financial investors in television series and films	(128)	(11,400)
Payments for acquisition of non-controlling interests	–	(4,899)
Principal elements of lease payments	(40,676)	(21,519)
Proceeds from capital injection to a subsidiary by non-controlling interests	3,376	–
Net cash flows used in financing activities	(466,370)	(674,036)
Net (decrease)/increase in cash and cash equivalents	(2,233,275)	138,837
Cash and cash equivalents at beginning of the period	5,545,766	4,528,412
Exchange gains on cash and cash equivalents	47,415	68,468
Cash and cash equivalents at end of the period	3,359,906	4,735,717

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

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

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

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

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

The interim financial information comprises the consolidated statement of financial position as of June 30, 2023, the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

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

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2022 annual report of the Company dated March 16, 2023 (the “2022 Financial Statements”).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3 Accounting policy information

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2022 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including contingent consideration payable) at fair value through profit or loss, which are carried at fair value.

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

3.1 Amendments to standards and interpretations adopted by the Group

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

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

Except for IAS 12, the adoption of the new amendments to standards does not have significant impact on the consolidated financial statements of the Group. The Group had to change its accounting policies following the adoption of IAS 12, details of which are disclosed in Note 4 Changes in accounting policies.

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

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

		Effective for annual periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as current or non-current	January 1, 2024
Amendments to IAS 1	Non-current liabilities with covenants	January 1, 2024
Amendments to IFRS 16	Lease liability in sale and leaseback	January 1, 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture	To be determined

NOTES TO THE INTERIM FINANCIAL INFORMATION

4 Changes in accounting policies

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

In addition, Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules” were issued on May 23, 2023. The amendments provide a temporary exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the exposure to Pillar Two income taxes from December 31, 2023. The Group has adopted the amendments and continually evaluate the impact of the above mentioned amendments on the consolidated financial statements. The relief and the new disclosures will also be reflected in the Group’s consolidated financial statements as at and for the year ending December 31, 2023.

5 Estimates

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 Financial Statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Financial risk management and financial instruments

6.1 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), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2022 Financial Statements.

There was no changes in the risk management policies during the six months ended June 30, 2023.

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.

6.2 Liquidity risk

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 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
(Unaudited)					
As of June 30, 2023					
Trade payables	1,032,440	-	-	-	1,032,440
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable)	560,543	-	-	-	560,543
Financial liabilities at fair value through profit or loss (Note 32)*	262,220	197,071	-	-	459,291
Lease liabilities (Note 17)	74,331	73,766	117,355	-	265,452
Total	1,929,534	270,837	117,355	-	2,317,726

* Financial liabilities at fair value through profit or loss will be settled by a combination of cash and shares of the Company issued for part of the settlement. Except for the undiscounted cash flows as disclosed above, ordinary shares of approximately RMB115,380 and RMB85,717 will be issued as consideration for the business combination in less than 1 year and between 1 and 2 year, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Financial risk management and financial instruments (Continued)

6.2 Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2022					
Trade payables	1,203,873	-	-	-	1,203,873
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable)	652,391	-	-	-	652,391
Borrowings (Note 29)	417,876	-	-	-	417,876
Financial liabilities at fair value through profit or loss (Note 32)	272,035	193,317	188,966	-	654,318
Lease liabilities (Note 17)	73,458	54,523	88,044	-	216,025
Total	2,619,633	247,840	277,010	-	3,144,483

6.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as of June 30, 2023 and December 31, 2022 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:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1;
- Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data 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; and
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Financial risk management and financial instruments (Continued)

6.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair values as of June 30, 2023.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
As of June 30, 2023				
Financial assets:				
– Financial assets at fair value through profit or loss (“FVPL”)	8,942	–	3,577,780	3,586,722
– Financial asset at fair value through other comprehensive income (“FVOCI”)	5,165	–	–	5,165
	14,107	–	3,577,780	3,591,887
Financial liabilities at fair value through profit or loss	–	–	633,184	633,184

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2022.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2022				
Financial assets:				
– FVPL	8,911	–	972,659	981,570
– FVOCI	8,009	–	–	8,009
	16,920	–	972,659	989,579
Financial liabilities at fair value through profit or loss	–	–	872,775	872,775

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2023 and 2022.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Financial risk management and financial instruments (Continued)

6.3 Fair value estimation (Continued)

There were no changes in valuation techniques during the six months ended June 30, 2023 and 2022.

The changes in level 3 financial instruments for the six months ended June 30, 2023 and 2022 are represented in the following table:

	Financial assets		Financial liabilities	
	Six months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening balance	972,659	1,295,983	872,775	1,151,854
Additions	2,800,134	18,991	–	–
Compensation cost	–	–	1,825	1,825
Changes in fair value recognised as other gains/(losses), net	(38,448)	(387,051)	49,952	(112,172)
Changes in fair value recognised as revenues	–	1,897	–	–
Disposals	(171,919)	–	–	–
Settlement of investments in television series and films	–	(9,231)	–	–
Settlement of contingent consideration payable	–	–	(291,368)	(99,429)
Currency translation differences	15,354	26,504	–	–
Closing balance	3,577,780	947,093	633,184	942,078
Include unrealised gains and losses recognised in profit or loss attributable to balances held at the end of the reporting period	(50,427)	(369,051)	45,830	(103,378)

NOTES TO THE INTERIM FINANCIAL INFORMATION

7 Segment information

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

The Group had the following reportable segments for the six months ended June 30, 2023 and 2022:

- Online business (including online paid reading, online advertising and game publishing); and
- Intellectual property operations and others (including licensing and distribution of film and television properties, copyrights licensing, sales of adaptation rights and scripts, sales of physical books, in-house online games operations, distributions of online audio books and online comic content provided via Tencent and third-party platforms, etc.)

As of June 30, 2023 and 2022, the chief operating decision-makers assessed the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses were common costs incurred for these operating segments as a whole and therefore, they were not included in the measure of the segments' performance which was used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net, net provision for impairment losses on financial assets, share of net profit of associates and joint ventures and income tax expenses were also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2023 and 2022. The revenues from external customers reported to the chief operating decision-makers were measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

7 Segment information (Continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2023 and 2022 is as follows:

	Six months ended June 30, 2023		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,038,736	1,244,290	3,283,026
Cost of revenues	1,018,722	659,542	1,678,264
Gross profit	1,020,014	584,748	1,604,762

	Six months ended June 30, 2022		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	1,146,745	794,143	1,940,888
Gross profit	1,160,271	986,055	2,146,326

The reconciliation of gross profit to profit before income tax during the six months ended June 30, 2023 and 2022 is shown in the consolidated statement of comprehensive income.

For the six months ended June 30, 2023, the Group's customer base was diversified and included only Tencent, with whom transactions exceeded 10% of the Group's total revenues (for the six months ended June 30, 2022: only Tencent).

As of June 30, 2023 and 2022, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 Revenues

8.1 Disaggregation of revenue from contracts with customers

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

(Unaudited) Six months ended June 30, 2023	Online business			Intellectual property operations and others		
	On self-owned platform products RMB'000	On the channels on Tencent products RMB'000	On third-party platforms RMB'000	Intellectual property operations RMB'000	Others RMB'000	Total RMB'000
Timing of revenue recognition:						
– At a point in time	1,615,672	175,461	97,729	952,809	53,325	2,894,996
– Over time	148,327	1,547	–	237,310	846	388,030
	1,763,999	177,008	97,729	1,190,119	54,171	3,283,026

(Unaudited) Six months ended June 30, 2022	Online business			Intellectual property operations and others		
	On self-owned platform products RMB'000	On the channels on Tencent products RMB'000	On third-party platforms RMB'000	Intellectual property operations RMB'000	Others RMB'000	Total RMB'000
Timing of revenue recognition:						
– At a point in time	1,611,937	259,053	196,457	1,204,167	46,436	3,318,050
– Over time	151,140	88,429	–	527,091	2,504	769,164
	1,763,077	347,482	196,457	1,731,258	48,940	4,087,214

NOTES TO THE INTERIM FINANCIAL INFORMATION

9 Expenses by nature

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Content costs (Note a)	751,939	743,142
Promotion and advertising expenses	558,281	850,579
Employee benefits expenses	516,844	556,171
Platform distribution costs	383,224	475,040
Production costs of television, web and animated series and films	268,714	451,389
Payment handling costs	126,849	131,851
Amortisation of intangible assets (Note 18)	91,772	123,272
Game development outsourcing costs	56,687	38,412
Bandwidth and server custody fees	43,354	35,936
Depreciation of right-of-use assets (Note 17)	38,437	49,927
Impairment loss on prepayments for production of television series and films (Note b)	36,000	–
Cost of physical inventories sold	29,336	19,961
Travelling, entertainment and general office expenses	17,888	12,064
Depreciation of property, plant and equipment (Note 16)	17,007	9,598
Professional service fees	11,102	11,904
Provision for physical inventory obsolescence	8,802	5,207
Tax surcharge expenses	8,314	10,396
Auditors' remuneration		
– Audit services	5,315	5,315
– Non-audit services	488	151
Impairment loss on prepayments to directors and writers	2,830	18,732
Logistic expenses	2,542	2,528
Expense relating to short-term and low-value leases (Note 17)	2,426	2,278
Others	56,769	55,066
	3,034,920	3,608,919

Notes:

- (a) Content costs mainly include (i) other than the initial acquisition of the copyrights from writers, the Group also pays a certain percentage of the revenues earned on such contents posted through its self-owned platforms, channels on Tencent products and third-party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements; (ii) the direct costs associated with the adaptation rights and scripts that sold by the Group; and (iii) the impairment loss on adaptation rights and scripts.
- (b) The Group performed impairment assessment on prepayments for production of television series and films, and the respective recoverable amounts of these prepayments are determined with reference to discounted cash flows. During the six months ended June 30, 2023, an impairment loss of approximately RMB36,000,000 was recognised in cost of revenues.
- (c) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2023 was approximately RMB267,239,000 (six months ended June 30, 2022: RMB281,379,000), which mainly included employee benefits expenses of research and development function staff.

NOTES TO THE INTERIM FINANCIAL INFORMATION

10 Interest income

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest income on bank deposits	80,065	68,855
Others	72	–
	80,137	68,855

11 Other gains/(losses), net

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fair value loss of investments in redeemable shares	(70,999)	(369,051)
Fair value gain/(loss) of investments in other financial assets at fair value through profit or loss	31,832	(21,835)
Fair value (loss)/gain on contingent consideration payable (Note 6.3)	(49,952)	112,172
Government subsidies	83,434	52,184
Gain on disposal of investment in an associate (Note a)	40,402	–
Compensation received for copyright infringements	5,407	3,633
Loss on disposal of a subsidiary (Note b)	–	(16,934)
Impairment provision for investments in associates (Note 19)	(55,308)	–
Dilution gains on deemed disposal (Note 19)	12,711	–
Others, net	8,287	4,422
	5,814	(235,409)

Note:

- (a) In May 2023, after considering certain investment's objectives and the investee's market price, the Group disposed partial of its equity interests in an associate. Upon the disposal, the carrying amount of the disposed equity interests was approximately RMB28,793,000, while the total cash consideration received was approximately RMB69,195,000. Accordingly, a disposal gain of RMB40,402,000 was recognised for the six months ended June 30, 2023.
- (b) In April 2022, the Group entered into a share transfer agreement to sell the Group's 89.55% equity interest in its non-wholly owned subsidiary, Zhongzhi Bowen Book Co., Ltd. ("Zhongzhi"), to the minority shareholder of the Zhongzhi at the cash consideration of RMB2,000,000. Upon the disposal, the cash and cash equivalents owned by Zhongzhi amounted to approximately RMB15,989,000. After this transaction, the Group disposed all its equity interests in Zhongzhi. Disposal loss of approximately RMB16,934,000 was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income for the six months ended June 30, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 Finance costs, net

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest expenses on borrowings	7,181	28,276
Interest expenses on lease liabilities (Note 17)	4,372	5,819
Foreign exchange gain, net	(8,733)	(2,491)
	2,820	31,604

13 Income tax expense

(a) Cayman Islands corporate income tax ("CIT")

The Company was not subject to any taxation in the Cayman Islands for the six months ended June 30, 2023 and 2022.

(b) Hong Kong profit tax

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

(c) PRC corporate income tax

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 Income tax expense (Continued)

(c) PRC corporate income tax (Continued)

Certain subsidiaries of the Group are eligible for small low-profit enterprise, and were subject to a stated preferential income tax rate. Under the relevant regulations of the CIT Law, for eligible enterprise which meet the criteria of small low-profit enterprise, the annual taxable income that is not more than RMB1,000,000 shall be recognised at 25% of income and be subject to a CIT rate of 20%; the annual taxable income that is more than RMB1,000,000 but less than RMB3,000,000 shall be recognised at 50% of income and be subject to a CIT rate of 20%.

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

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current income tax	82,543	86,339
Deferred income tax (Note 23)	(32,933)	21,821
Income tax expense	49,610	108,160

14 Earnings per share

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

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Net profit attributable to the equity holders of the Company	376,680	228,545
Weighted average number of ordinary shares in issue (thousand)	1,006,602	1,011,137
Basic earnings per share (expressed in RMB per share)	0.37	0.23

NOTES TO THE INTERIM FINANCIAL INFORMATION

14 Earnings per share (Continued)

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

For the six months ended June 30, 2023 and 2022, the Company had dilutive potential ordinary shares of restricted shares units (“RSUs”) and share options granted to employees and directors. For the RSUs, a calculation was performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company’s shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs were assumed to have been fully vested and released from restrictions with no impact on earnings. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that would have been issued at fair value (determined as the average market share price of the Company’s shares) were incremental shares issued for no consideration which causes dilution to earnings per share.

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

	Six months ended June 30,	
	2023 RMB’000 (Unaudited)	2022 RMB’000 (Unaudited)
Net profit attributable to the equity holders of the Company	376,680	228,545
Impact of an associate’s potential ordinary shares	–	(2,075)
Net profit used to determine earnings per share	376,680	226,470
Weighted average number of ordinary shares outstanding (thousand)	1,006,602	1,011,137
Effect of deemed issuance of ordinary shares in connection with acquisition (thousand)	1,007	–
Adjustments for share-based compensation (thousand)	7,482	3,252
Weighted average number of ordinary shares for diluted earnings per share (thousand)	1,015,091	1,014,389
Diluted earnings per share (expressed in RMB per share)	0.37	0.22

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 Dividends

No dividends was paid or declared by the Company during the six months ended June 30, 2023 and 2022.

16 Property, plant and equipment

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)							
Six months ended							
June 30, 2023							
Opening net book amount as of January 1, 2023	21,497	72,444	13,183	1,091	18,892	5,751	132,858
Additions	4,458	447	–	1,172	–	570	6,647
Transfer from construction in progress	–	3,646	2,105	–	–	(5,751)	–
Disposals	(224)	–	(686)	(69)	–	–	(979)
Depreciation	(1,267)	(12,912)	(2,364)	(209)	(255)	–	(17,007)
Closing net book amount as of June 30, 2023	24,464	63,625	12,238	1,985	18,637	570	121,519

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)							
Six months ended							
June 30, 2022							
Opening net book amount as of January 1, 2022	26,606	7,760	3,092	1,914	–	5,751	45,123
Additions	5,271	124	53	62	7,274	19,480	32,264
Transfer from construction in progress	271	8	–	–	–	(279)	–
Disposals	(208)	–	–	–	–	–	(208)
Depreciation	(5,679)	(3,084)	(497)	(338)	–	–	(9,598)
Disposal of a subsidiary	(64)	(10)	(1)	(180)	–	–	(255)
Currency translation differences	2	–	–	–	–	–	2
Closing net book amount as of June 30, 2022	26,199	4,798	2,647	1,458	7,274	24,952	67,328

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 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 June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Right-of-use assets		
Properties	225,671	183,141
Lease liabilities		
Current	61,714	65,505
Non-current	178,868	134,595
	240,582	200,100

Additions to the right-of-use assets during the six months ended June 30, 2023 were approximately RMB80,887,000 (six months ended June 30, 2022: RMB560,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 Leases (Continued)

(b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets		
Properties	(38,437)	(49,913)
Vehicle	–	(14)
	(38,437)	(49,927)
Interest expense (included in finance costs, net)	4,372	5,819
Expense relating to short-term leases (included in general and administrative expenses and selling and marketing expenses)	2,203	2,278
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	223	266
	6,798	8,363

For the six months ended June 30, 2023, the total cash outflow for leases was approximately RMB46,912,000 (six months ended June 30, 2022: RMB27,338,000).

(c) The Group's leasing activities and how these are accounted for

The Group leases various properties 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 other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 Intangible assets

	Goodwill RMB'000	Non- complete agreement RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
(Unaudited)							
Six months ended June 30, 2023							
Opening net book amount as of January 1, 2023	6,632,807	14,841	557,242	208,622	6,038	2,089	7,421,639
Additions	-	-	-	75,717	7,638	-	83,355
Amortisation	-	(3,298)	(10,401)	(75,129)	(2,924)	(20)	(91,772)
Currency translation differences	-	-	-	10	-	-	10
Closing net book amount as of June 30, 2023	6,632,807	11,543	546,841	209,220	10,752	2,069	7,413,232

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

Impairment tests for goodwill

As of June 30, 2023 and December 31, 2022, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Online business	3,715,659	3,715,659
Acquired TV and film business	2,917,148	2,917,148
	6,632,807	6,632,807

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 Intangible assets (Continued)

Impairment tests for goodwill (Continued)

During the six months ended June 30, 2023 and 2022, impairment review on goodwill arising from acquired TV and film business had been conducted by the management according to IAS 36 “Impairment of assets”. The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments.

For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal (“FVLCD”) and value-in-use calculations. As of June 30, 2023 and June 30, 2022, the recoverable amount of goodwill had been determined based on the value-in-use calculation. The value-in-use calculations adopt cash flow projections derived from expected business operating covering a five-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control processes established by the Group. The management leveraged their extensive experiences in the industries and developed forecasts based on past performance and their expectation of future business plans and market developments.

Based on the results of the impairment assessments, no impairment loss on the goodwill relating to the acquired TV and film business had been recognised as of June 30, 2023 and 2022.

19 Investments in associates and joint ventures

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Investments in associates (a)	427,239	476,225
Investments in joint ventures (b)	685,649	532,529
	1,112,888	1,008,754

NOTES TO THE INTERIM FINANCIAL INFORMATION

19 Investments in associates and joint ventures (Continued)

(a) Investments in associates

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
At the beginning of the period	476,225	490,500
Additions	23,027	1,903
Share of net losses of associates	(1,579)	(4,627)
Share of other comprehensive loss of associates	(1,767)	(458)
Disposal (Note 11(a))	(28,793)	–
Impairment (Note)	(55,308)	–
Dilution gains on deemed disposals	12,711	–
Currency translation differences	2,723	1,107
At the end of the period	427,239	488,425

Note:

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 RMB55,308,000 against the carrying amounts of certain investments in associates during the six months ended June 30, 2023. The impairment losses were mainly resulted from revisions of financial and business outlook of certain associates and changes in the market environment of the underlying businesses.

(b) Investments in joint ventures

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
At the beginning of the period	532,529	441,778
Additions	34,080	–
Share of net profit of the joint ventures	119,040	125,458
At the end of the period	685,649	567,236

NOTES TO THE INTERIM FINANCIAL INFORMATION

20 Financial instruments by category

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value:		
– FVPL (current and non-current portions) (Note 21)	3,586,722	981,570
– FVOCI (Note 22)	5,165	8,009
Financial assets at amortised cost:		
– Trade and notes receivables (Note 27)	1,820,841	2,048,930
– Deposits and other assets (current and non-current portions) (Note 24)	652,764	702,216
– Term deposits (current and non-current portions)	1,398,947	1,848,660
– Cash and cash equivalents	3,359,906	5,545,766
	10,824,345	11,135,151
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 32)	633,184	872,775
Financial liabilities at amortised cost:		
– Trade payables (Note 30)	1,032,440	1,203,873
– Lease liabilities (current and non-current portions) (Note 17)	240,582	200,100
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable) (Note 31)	560,543	651,422
– Long-term payables	2,921	4,691
– Borrowings (current and non-current portions) (Note 29)	–	417,876
	2,469,670	3,350,737

NOTES TO THE INTERIM FINANCIAL INFORMATION

21 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 FVOCI;
- equity investments that are held for trading; and
- equity investments for which the entity has not elected to recognise fair value gains or losses through other comprehensive income.

FVPL include the following:

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Included in non-current assets:		
Investments in unlisted entities	790,488	853,330
Investment in a listed entity	8,942	8,911
	799,430	862,241
Included in current assets:		
Investments in television series and films	4,500	4,500
Investments in structured deposits	2,782,792	114,829
	2,787,292	119,329
	3,586,722	981,570

NOTES TO THE INTERIM FINANCIAL INFORMATION

21 Financial assets at fair value through profit or loss (Continued)

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

Movement of FVPL is analysed as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	981,570	1,310,030
Additions (Note a)	2,800,134	18,991
Changes in fair value recognised as other gains/(losses), net (Note 11)	(39,167)	(390,886)
Changes in fair value recognised as revenues	–	1,897
Disposals (Note b)	(171,919)	–
Settlement of investment in films	–	(9,231)
Currency translation difference	16,104	27,240
At the end of the period	3,586,722	958,041

Notes:

- (a) In March 2023, the Group invested in redeemable convertible preferred shares of a third-party company that was principally engaged in the online business at a cash consideration of USD2,400,000 (equivalent to approximately RMB17,342,000), which represented 3.75% equity interest of the investee on an outstanding and fully converted basis.

During the six months ended June 30, 2023, the Group invested in structured deposits with guaranteed principal and floating return at a cash consideration of approximately RMB2,782,792,000. Fair value gain from these investments was recognised in "other gains/(losses), net" in the consolidated statement of comprehensive income.

- (b) During the six months ended June 30, 2023, the Group's disposals of financial assets at FVPL mainly included the receipts from maturity of approximately RMB148,892,000 structured deposits.

NOTES TO THE INTERIM FINANCIAL INFORMATION

22 Financial asset at fair value through other comprehensive income

FVOCI include the following:

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Included in non-current assets:		
Investment in a listed entity	5,165	8,009

Movement of FVOCI is analysed as follows:

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
At the beginning of the period	8,009	14,073
Changes in fair value	(4,122)	(6,571)
Currency translation difference	1,278	749
At the end of the period	5,165	8,251

23 Deferred income taxes

The movements of deferred income tax assets/liabilities are as follows:

	As of June 30, 2023 RMB'000 (Unaudited)	As of January 1, 2023 RMB'000 (Restated)
Gross deferred income tax assets	381,817	341,064
Set-off of deferred income tax assets pursuant to set-off provisions	(38,898)	(28,781)
Net deferred income tax assets	342,919	312,283

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 Deferred income taxes (Continued)

	As of June 30, 2023 RMB'000 (Unaudited)	As of January 1, 2023 RMB'000 (Restated)
Gross deferred income tax liabilities	(176,164)	(168,344)
Set-off of deferred income tax liabilities pursuant to set-off provisions	38,898	28,781
Net deferred income tax liabilities	(137,266)	(139,563)

The movements of deferred income tax assets/liabilities are as follows:

	Deferred income tax assets RMB'000 (Unaudited)	Deferred income tax liabilities RMB'000 (Unaudited)	Deferred income tax, net RMB'000 (Unaudited)
As of December 31, 2022	314,605	(141,885)	172,720
Adjustment on Amendments to IAS 12 (Note 4)	26,459	(26,459)	–
As of January 1, 2023 (Restated)	341,064	(168,344)	172,720
Charged to profit or loss	40,753	(7,820)	32,933
As of June 30, 2023	381,817	(176,164)	205,653
As of December 31, 2021	271,815	(149,286)	122,529
Adjustment on Amendments to IAS 12 (Note 4)	40,869	(40,869)	–
As of January 1, 2022 (Restated)	312,684	(190,155)	122,529
Charged to profit or loss	(27,094)	5,273	(21,821)
As of June 30, 2022 (Restated)	285,590	(184,882)	100,708

NOTES TO THE INTERIM FINANCIAL INFORMATION

24 Prepayments, deposits and other assets

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Non-current:		
Prepayments to directors and writers	121,267	108,630
Deferred compensation cost (Note 32)	80,295	106,719
Prepayments for production of television series and films	45,416	81,443
Deposits and prepayments	26,165	26,673
Prepayments for overseas licensed film rights	6,176	6,176
Amount due from a related party (Note 33)	5,000	–
	284,319	329,641
Current:		
Amounts due from related parties (Note 33)	431,724	494,679
Receivable from co-producers and others for production of television series and films	191,264	229,733
Prepaid corporate income tax	95,935	122,011
Deferred cost	86,524	85,500
Recoverable value-added tax	85,352	100,520
Prepayment for production of television series and films	60,154	42,209
Interests receivable	49,526	18,232
Prepayments to vendors and online writers	32,728	28,075
Rental and other deposits	11,383	13,584
Royalty advances	5,986	6,447
Staff advances	1,108	1,345
Prepayment for an overseas licensed film right	111	120
Prepayment to directors and writers	–	22,906
Loan to a former subsidiary	–	6,766
Others	47,506	40,417
	1,099,301	1,212,544

Note:

As of December 31, 2022, the loan lent to a former subsidiary bore interest at the rate of 1.35% per annum. The principal and the interest of the loan was repaid in March 2023.

The directors of the Group considered that the carrying amounts of “prepayments, deposits and other assets” (excluding prepayments) approximated to their respective fair values as of June 30, 2023 and December 31, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

25 Inventories

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Adaptation rights and scripts	708,678	715,934
Raw materials	2,919	3,534
Work in progress	318	1,284
Inventories in warehouse	33,721	34,754
Inventories held with distributors on consignment	32,975	31,472
Others	14,592	10,769
	793,203	797,747
Less: provision for inventory obsolescence	(40,826)	(37,476)
	752,377	760,271

Raw materials primarily consist of paper which will be transferred into work in progress when book production process starts and the paper are delivered to printers for printing.

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the six months ended June 30, 2023, the cost of inventories recognised as expenses amounted to approximately RMB107,553,000 (six months ended June 30, 2022: RMB71,210,000) and the provision for impairment of inventories amounted to approximately RMB39,515,000 (six months ended June 30, 2022: RMB31,058,000). All these expenses and impairment charge have been included in "cost of revenues" in the consolidated statements of comprehensive income.

During the six months ended June 30, 2023, the provision for impairment of inventories as utilised upon the Group's ultimate sales of the related inventories amounted to approximately RMB5,452,000 (six months ended June 30, 2022: RMB7,276,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

26 Television series and film rights

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Television series and film rights		
– production in progress	782,770	748,969
– completed	67,508	191,443
	850,278	940,412

	Production in progress RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2023	748,969	191,443	940,412
Additions	178,580	–	178,580
Transfer from production in progress to completed	(144,779)	144,779	–
Recognised in cost of revenues	–	(268,714)	(268,714)
As of June 30, 2023 (Note a)	782,770	67,508	850,278

	Production in progress RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2022	813,633	277,259	1,090,892
Additions	304,942	–	304,942
Transfer from production in progress to completed	(340,484)	340,484	–
Recognised in cost of revenues	–	(451,389)	(451,389)
As of June 30, 2022 (Note a)	778,091	166,354	944,445

Notes:

- (a) The balance of television series and film rights production in progress represented costs associated with the production of television series and films, including remuneration of the directors, casts and the production crew, costumes, insurance, make-up and hairdressing, as well as rental of camera and lighting equipment etc. Television series and film rights production in progress are transferred to television series and film rights completed upon completion of production.
- (b) The Group has entered into certain joint operation arrangements to produce and distribute television series and films. As at June 30, 2023, the carrying amounts of television series and film rights recognised in the consolidated statement of financial position relating to the Group's interests in these joint operation arrangements are approximately RMB474,177,000 (December 31, 2022: RMB609,918,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

27 Trade and notes receivables

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Trade receivables	2,032,929	2,245,859
Notes receivables	8,960	1,340
	2,041,889	2,247,199
Less: allowance for impairment of trade and notes receivables	(221,048)	(198,269)
	1,820,841	2,048,930

The Group applies the IFRS 9 simplified approach for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. The Group also performed assessment on an individual basis, when it becomes aware of an increase in credit risk for the individual financial instrument. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated their fair value as of June 30, 2023 and December 31, 2022.

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

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Trade and notes receivables		
– Up to 3 months	952,191	1,513,045
– 3 to 6 months	141,643	122,045
– 6 months to 1 year	434,227	190,646
– 1 to 2 years	244,498	162,705
– Over 2 years	48,282	60,489
	1,820,841	2,048,930

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 Share-based payments

(a) RSU schemes of the Group

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

(i) 2014 RSU Scheme

The Company has adopted a share award scheme on December 23, 2014 to the extent of 25,000,000 new ordinary shares of the Company for the purpose of attracting and retaining the best available personnel, and providing additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 RSU Scheme"). The RSUs granted under the 2014 RSU Scheme would become vested with respect to 20% of the RSUs on each of the first five anniversaries of the grant date. On March 12, 2016, the Company modified the vesting condition associated with the 2014 RSU Scheme in a non-beneficial way by adding a non-market performance condition relating to completion of a defined initial public offering of the Company.

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

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

	Number of RSUs
(Unaudited)	
As of January 1, 2023	5,322,457
Granted	100,243
Forfeited	(413,228)
Vested	(564,257)
Outstanding balance as of June 30, 2023	4,445,215
(Unaudited)	
As of January 1, 2022	7,304,840
Granted	1,781,682
Forfeited	(467,517)
Vested	(968,333)
Outstanding balance as of June 30, 2022	7,650,672

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 Share-based payments (Continued)

(a) RSU schemes of the Group (Continued)

(ii) 2020 RSU Scheme

The Company adopted a share award scheme on May 15, 2020 to the extent of 45,710,177 ordinary shares of the Company have been set aside for the scheme for the purposes of attracting and retaining the suitable personnel, and providing additional incentives to employees, directors and consultants (the “2020 RSU Scheme”). The RSUs granted were divided into two to four tranches on an equal basis at their grant dates, and shall become vested on each of the first two to four anniversaries of the grant date.

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

	Number of RSUs
(Unaudited)	
As of January 1, 2023	6,690,316
Granted	2,187
Forfeited	(552,354)
Vested	(10,962)
Outstanding balance as of June 30, 2023	6,129,187
(Unaudited)	
As of January 1, 2022	4,351,636
Granted	–
Forfeited	(419,548)
Vested	(10,962)
Outstanding balance as of June 30, 2022	3,921,126

During the six months ended June 30, 2023 and 2022, no RSU was granted to any director of the Company.

The fair value of each RSUs was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period had been taken into account when assessing the fair value of these RSUs.

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 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.

(i) Movements in share options

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

	2023		2022	
	Average exercise price	Number of options	Average exercise price	Number of options
(Unaudited)				
As of January 1	HKD47.15	9,243,013	HKD76.06	7,811,453
Forfeited/lapsed	HKD34.37	(789,039)	HKD82.85	(59,061)
As of June 30	HKD48.34	8,453,974	HKD76.00	7,752,392
Exercisable as of June 30	HKD57.82	3,204,417	HKD82.85	1,268,750

During the six months ended June 30, 2023 and 2022, no option was granted or exercised.

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 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 June 30, 2023 and December 31, 2022 are as follows:

Grant Date	Expiry Date	Exercise price	Number of share option	
			June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
July 12, 2021	July 12, 2031	HKD82.85	2,091,564	2,147,269
November 5, 2021	November 5, 2031	HKD53.14	1,786,539	1,786,539
August 18, 2022	August 18, 2032	HKD30.69	4,575,871	5,309,205
Total			8,453,974	9,243,013
Weighted average remaining contractual life of options outstanding at end of period			9.09 years	9.21 years

The outstanding share options as of June 30, 2023 were divided into four or three tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a year from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(iii) Fair value of options

The directors of the Company have used the binomial model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period.

(c) Expected Retention Rate

The Group has to estimate the Expected Retention Rate at the end of the vesting periods of the RSUs and share options in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of June 30, 2023, the Expected Retention Rate of the Group was assessed to be no lower than 92% (June 30, 2022: 92%).

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 Borrowings

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Current Unsecured		
USD bank borrowings (Note)	–	417,876

Note:

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

The Group had complied with all of the financial covenants of its borrowing facilities for the six months ended June 30, 2023 and 2022.

30 Trade payables

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

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
– Up to 3 months	391,629	472,982
– 3 to 6 months	72,581	101,266
– 6 months to 1 year	152,392	230,619
– Over 1 year	415,838	399,006
	1,032,440	1,203,873

NOTES TO THE INTERIM FINANCIAL INFORMATION

31 Other payables and accruals

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Payables of proceeds from license and distribution of television series and films rights as distributor (Note a)	209,002	228,630
Advertising and marketing expense accruals	165,058	233,466
Staff costs and welfare accruals	137,294	226,874
Other taxes payable	97,820	129,480
Payables of outsourcing fee on game development	38,686	32,617
Payable of professional service fee	19,509	30,893
Payables related to investments in joint ventures	16,540	–
Special funds payable	16,331	11,659
Payables related to purchase of intangible asset	11,770	11,864
Payables related to purchase of property, plant and equipment	3,864	11,294
Payments received from co-producer (Note b)	3,140	2,369
Payables to financial investors in television series and films	408	408
Interests payable	–	49
Others	92,566	99,832
	811,988	1,019,435

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 and it is obliged to be settled with counterparties within the agreed credit period.
- (b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreements and the Group is obliged to utilise these payments in production.

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 Financial liabilities at fair value through profit or loss

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Non-current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media	262,472	490,613
Current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media	370,712	382,162
	633,184	872,775

Note:

On October 31, 2018, the Group entered into a share purchase agreement ("2018 New Classic Media Share Purchase Agreement") with the 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 consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to an earn-out mechanism that is set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares issued by the Company based on the terms and subject to the conditions set forth in the share purchase agreement.

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 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 five financial years ending December 31, 2024, and is subject to additional conditions and adjustments set forth in the supplemental SPA deed.

The estimated consideration payable arising from the new earn-out mechanism was recognised as "contingent consideration payable". The contingent consideration payable was initially and subsequently measured at fair value based on the valuation results performed by the independent external valuation firm.

Under the supplemental SPA deed, a special purpose vehicle company set up by Mr. Cao Huayi, the founder of New Classics Media (the "Founder") must return to the Group an amount of approximately RMB216,358,000 on a one-time basis, which is equal to the return of consideration under the original earn out mechanism, if that Founder ceases or terminates his employment or breaches the deed of non-competition. As such, approximately RMB216,358,000 was considered and accounted for as remuneration for his future services and was recognised as "deferred compensation costs" in the consolidated statement of financial position, on the Effective Date. For the six months ended June 30, 2023, the compensation costs amounting to approximately RMB26,424,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income (For the six months ended June 30, 2022: RMB26,424,000).

In addition, out of the total above mentioned consideration, an aggregate RMB20,000,000 was a contingent payment which would be automatically forfeited if these selling shareholders who are also the employees of New Classics Media terminate their employments. It was also considered and accounted as remuneration for their future services. As of June 30, 2023, RMB875,000 (June 30, 2022: RMB1,225,000) had been deducted from the consideration payables since certain management employees had left New Classics Media in 2021. The compensation costs amounting to approximately RMB1,825,000 were charged to "general and administrative expenses" in the consolidated statement of comprehensive income during the six months ended June 30, 2023 (For the six months ended June 30, 2022: RMB1,825,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 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.

Name of major related parties	Relationship with the Company
Tencent	Ultimate holding company
Aceville Pte. Ltd.	Fellow subsidiary
Beijing Tencent Culture Media Co., Ltd.	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Shenzhen Lazy Online Technology Co., Ltd.	Fellow subsidiary
Shenzhen Tencent Animation Co., Ltd.	Fellow subsidiary
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Tencent Cloud Computing (Beijing) Company Limited	Fellow subsidiary
Tencent Film Culture Communication Co., Ltd.	Fellow subsidiary
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Jinjiang	Joint venture of the Group
Sky Mutual Entertainment (Tianjin) Culture Communication Co., Ltd.	Joint venture of the Group
Shenzhen Maten Animation Co., Ltd.	Joint venture of the Group
Chunshuiruge Cultural Development (Hainan) Co., Ltd.	Associate of the Group
Beijing Kuaishou Technology Co., Ltd.	Associate of the ultimate holding company
Beijing Zhizhetianxia Technology Co., Ltd.	Associate of the ultimate holding company
Seven Impression (Xiamen) Film Media Co., Ltd.	Associate of the ultimate holding company
Seven Impressions Media (Haikou) Co., Ltd.	Associate of the ultimate holding company
Shanghai Mengqiu Network Technology Co., Ltd.	Associate of the ultimate holding company
Shanghai Xunmeng Information Technology Co., Ltd.	Associate of the ultimate holding company
Shengji Information Technology (Shanghai) Co., Ltd.	Associate of the ultimate holding company
Tianjin Maoyan Welying Media Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 Related party transactions (Continued)

(a) Intellectual property operations and provision of advertising

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fellow subsidiaries	875,658	629,622
Associates of the ultimate holding company (Note)	19,200	14,096
Associates of the Group	2,103	2,847
	896,961	646,565

During the six months ended June 30, 2023 and 2022, revenue from intellectual property operations relating to fellow subsidiaries recognised at a point in time including license of television series, film rights and animated series, copyrights licensing, sales of adaptation rights and scripts and others. Revenue is recognised when certain materials or contents had been delivered and accepted and the Group had no further obligation upon the delivery of such materials or contents.

(b) Receipts of services, purchase of animation works and other purchase

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fellow subsidiaries	150,252	237,614
Associates of the ultimate holding company	37,103	28,240
Joint ventures of the Group	24,827	15,566
Associates of the Group	5,166	34,699
	217,348	316,119

The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 Related party transactions (Continued)

(c) Interest income

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
A joint venture of the Group	72	–

Note:

For the related party transactions disclosed in Note 33, 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, the related party transactions of which are disclosed separately.

(d) Loan lent to a related party

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
A joint venture of the Group	5,000	–

(e) Period/year-end balances with related parties

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Trade receivables		
Fellow subsidiaries (Note)	1,326,720	1,586,870
Associates of the ultimate holding company	23,025	42,732
Associates of the Group	150	1,371
	1,349,895	1,630,973

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 Related party transactions (Continued)

(e) Period/year-end balances with related parties (Continued)

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Prepayments, deposits and other receivables		
Fellow subsidiaries	426,324	450,319
Associates of the ultimate holding company	5,353	3,805
A joint venture of the Group	5,047	40,392
Associates of the Group	–	163
	436,724	494,679

Receivables due from related parties are unsecured, interest-free and repayable on demand. As of June 30, 2023, bad debt provision amounted to approximately RMB77,989,000 (December 31, 2022: RMB36,174,000) was made against receivables from related parties.

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Trade payables		
Fellow subsidiaries	84,418	193,069
Joint ventures of the Group	72,520	51,693
Associates of the ultimate holding company	7,419	7,549
Associates of the Group	1,856	5,437
	166,213	257,748

	As of June 30, 2023 RMB'000 (Unaudited)	As of December 31, 2022 RMB'000
Other payables, accruals and deferred revenue		
Fellow subsidiaries	267,968	241,561
Associates of the ultimate holding company	63,613	39,316
Joint ventures of the Group	22,276	1,557
Associates of the Group	3	308
	353,860	282,742

Payables due from related parties are unsecured, interest-free and payable on demand.

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 Related party transactions (Continued)

(f) Key management personnel compensation

	Six months ended June 30,	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Salaries, wages and bonuses	2,179	1,680
Other social security costs, housing benefits and other employee benefits	22	–
Pension costs – defined contribution plans	32	–
Share-based compensation expenses	7,243	23,358
	9,476	25,038

34 Subsequent events

There were no other material subsequent events occurred after June 30, 2023.

DEFINITION

“2020 Restricted Share Unit Scheme”	:	a restricted share unit scheme of the Company adopted on May 15, 2020 and amended by the Shareholders’ resolution passed on May 22, 2023;
“Share Option Plan”	:	a share option plan of the Company adopted on May 24, 2021 and amended by the Shareholders’ resolution passed on May 22, 2023;
“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;
“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Award(s)”	:	the RSU(s) granted under the RSU Plan;
“Award Agreement”	:	the agreement evidencing the grant of the Awards;
“Board”	:	the board of Directors of the Company;
“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;
“CG Code”	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
“China” or the “PRC”	:	the People’s Republic of China;
“Company”, “our Company”, “the Company” or “China Literature”	:	China Literature Limited (阅文集团) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
“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;
“Director(s)”	:	the director(s) of our Company;

DEFINITION

“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
“HKD”	:	the lawful currency of Hong Kong;
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IFRS”	:	International Financial Reporting Standards
“IP”	:	intellectual property;
“JPY”	:	the lawful currency of Japan
“Listing Date”	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Main Board”	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
“MAUs”	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
“Model Code”	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
“MPUs”	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
“New Classics Media” or “NCM”	:	New Classics Media Holdings Limited, previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Islands on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;

DEFINITION

“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;
“reporting period”	:	the six months ended June 30, 2023;
“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;
“Service Provider Sublimit”	:	a sublimit for the total number of Shares to be issued to the service providers underlying the share schemes of the Company shall not in aggregate exceed 5,076,192 Shares, representing approximately 0.5% of the total number of Shares as of May 22, 2023;
“SFO”	:	the Securities and Futures Ordinance
“SGD”	:	the lawful currency of Singapore;
“Share(s)”	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
“Shareholders”	:	holder(s) of our Share(s);
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Tencent”	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700);
“Tencent 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;

DEFINITION

- “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;
- “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
- “USD” : the lawful currency of the United States.

