



2023 ANNUAL REPORT

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772



CONTENTS

2	Corporate Information
4	Financial Summary
5	Chairman’s Statement
7	CEO’s Statement
10	Management Discussion and Analysis
23	Directors and Senior Management
30	Report of Directors
72	Corporate Governance Report
100	Independent Auditor’s Report
110	Consolidated Statement of Comprehensive Income
111	Consolidated Statement of Financial Position
113	Consolidated Statement of Changes in Equity
115	Consolidated Statement of Cash Flows
117	Notes to the Consolidated Financial Statements
227	Definitions



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

Wan Chai

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, Uglad 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
Wan Chai
Hong Kong

Principal Banker

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

Company's Website

<http://ir.yuewen.com/>

Stock Code

772

FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenues	7,011,785	7,625,622	8,668,244	8,525,701	8,347,767
Gross Profit	3,371,463	4,030,103	4,599,443	4,234,076	3,692,023
Operating profit/(loss)	709,309	628,834	2,172,640	(4,474,668)	1,193,907
Profit/(loss) before income tax	901,397	773,820	2,303,068	(4,538,720)	1,179,797
Profit/(loss) for the year	803,547	607,628	1,842,927	(4,500,197)	1,112,134
Profit/(loss) attributable to equity holders of the Company	804,879	608,186	1,846,609	(4,483,869)	1,095,953
Total comprehensive income/(loss) for the year	843,346	722,435	1,764,723	(4,532,508)	1,167,355
Total comprehensive income/(loss) attributable to equity holders of the Company	844,644	722,794	1,769,207	(4,516,202)	1,151,165
Non-IFRS profit attributable to equity holders of the Company	1,130,379	1,348,216	1,229,721	917,105	1,194,618

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Assets					
Non-current assets	11,965,656	10,258,566	10,567,004	9,815,429	14,059,479
Current assets	11,222,799	12,475,912	12,730,310	11,500,331	12,190,525
Total assets	23,188,455	22,734,478	23,297,314	21,315,760	26,250,004
Equity and liabilities					
Equity attributable to equity holders of the Company	19,024,945	17,957,338	17,186,455	15,093,507	19,396,567
Non-controlling interests	(538)	(2,616)	516	5,000	14,244
Total equity	19,024,407	17,954,722	17,186,971	15,098,507	19,410,811
Non-current liabilities	560,914	796,000	1,598,833	2,000,091	925,546
Current liabilities	3,603,134	3,983,756	4,511,510	4,217,162	5,913,647
Total liabilities	4,164,048	4,779,756	6,110,343	6,217,253	6,839,193
Total equity and liabilities	23,188,455	22,734,478	23,297,314	21,315,760	26,250,004

CHAIRMAN'S STATEMENT

I hereby present our annual report for the year ended December 31, 2023.

A few weeks ago, I watched the film “YOLO (熱辣滾燙),” a collaborative production led by New Classics Media and China Literature Pictures, which won first place in the China box office charts during the 2024 Chinese New Year holiday, and has grossed around RMB3.5 billion, or approximately USD490 million.

At a personal level, the film surprised me – I expected YOLO to deliver an overtly motivational and uplifting message in a slapstick package, but was touched and saddened by how the protagonist allowed other characters, especially those closest to her, to “take both apples”. YOLO tells a very contemporary story, but one that should live forever.

At a commercial level, as of the date of writing, YOLO ranks ahead by total box office of any Hollywood movie released globally year to date. That China's box office receipts regularly exceed those of the United States is not new news to anyone. But that success speaks to a number of under-appreciated factors, including the product-market fit that leading China movie studios, of which New Classics Media is one, can achieve when they are operating at their best.

The film industry is, and will likely remain, less linear and predictable than our original web novel business. This volatility hurt the Company's financial statements in 2023. China Literature is a powerhouse built to create and, where appropriate, extend high quality content across several entertainment formats – web novels, TV, computer games, series, films – and during 2023, for timing reasons, China Literature did not release any films, while still incurring costs associated with preserving the capacity to do so.

Citing timing reasons to explain volatility in a company's financial results may strike some shareholders as unsatisfactory. Most technology companies can be measured fairly through judging annual, or indeed quarterly results. However, China Literature is, in my view, a content company born from, and making use of, cutting edge technology. For content companies, and especially filmed entertainment studios, a single year's financial results may be a poor guide to underlying business trends, given the industry's exposure to external shocks such as COVID-19 or unexpected regulatory developments, as well as the film industry being one in which companies can only work on a limited number of high quality products at a time. Even the best studios, such as Pixar and LucasArts, have met challenges when trying to release films on a basis regular enough to satisfy shareholders' demand for predictable growth. Conversely, while China Literature's financial trajectory might hypothetically have been higher and smoother if New Classics Media had released YOLO in 2023, the audience reception, and thus economic benefit, to China Literature would have been weaker, given the suitability of the Chinese New Year release window, and the time needed for the actress portraying the lead character to complete her journey with such authenticity.

CHAIRMAN'S STATEMENT

Beyond New Classics Media's film business, the broader China Literature and New Classics Media team made headway in 2023 on several key initiatives including: revitalizing the Qidian APP and web novel business; combatting online piracy; releasing a number of popular TV series; making AI tools available to writers and animators; building up our downstream IP development capabilities; and cultivating the popularity of our content overseas. Our authors, readers and distribution partners recognize that in a competitive landscape which sometimes appears to prioritize traffic scale above all else, there is differentiated, enduring and increasing value in producing high quality content, whether contemporary films, historical TV series, or science fiction web novels.

To conclude, 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, March 18, 2024

CEO'S STATEMENT

In 2023, China Literature continued to build out its comprehensive IP development framework across a variety of content formats and covering different stages of the lifecycle. We also leveraged AI to accelerate the release of IP value and enhance commercial efficiency, supporting our mission to create good stories that will live forever.

IP Creation

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

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

- Anti-piracy measures which have continued to achieve breakthroughs. Throughout the year, we championed creativity by removing 1.1 million links to pirated content to safeguard authors' interests, boost subscription numbers, and foster a healthier content ecosystem.
- Our proprietary "Smart Pen Edition for the Author Assistant Application," leveraging our "Smart Pen" Large Language Model (LLM), is now accessible to all contracted writers. This cutting-edge tool sets a new benchmark in online literature creation. The weekly engagement rate with its AI features has reached 30%.
- Our innovative approach to building an interactive user community has strengthened the bond between our readers and our IP. In 2023, the number of new literary works with over one million user comments grew 67% year-over-year while the number of literary works with more than 100,000 monthly user votes grew 66% year-over-year. MPUs also grew nicely in 2023, increasing 10.1% year-over-year to 8.7 million.

IP Visualization

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

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

CEO'S STATEMENT

- In the animation segment, new seasons for classic IP franchises including “Battle Through the Heavens (斗破蒼穹),” “Stellar Transformations (星辰變),” “Almighty Mage (全職法師)” and “Martial Universe (武動乾坤)” were released during the period as well as the new animated series “Transcending the Nine Heavens (傲世九重天)” and “Mysterious Treasures (神藏).” Each of these titles was released to widespread praise from audiences. In particular, the 52-week season of “Battle Through the Heavens (斗破蒼穹)” was a fan favorite, dominating Weibo’s domestic animation popularity rankings for three months straight, maintaining its position as the most popular animated series on the Chinese internet. Our animated works continued to lead the market in terms of quantity, quality and hit rate. According to Enlightent, six of the top ten most-streamed online animated series in 2023 were adapted from China Literature IP.
- In the comics segment, 13 of our newly released adapted comic series broke the 100 million benchmark in popularity in 2023. In addition, the acquisition of the assets of Tencent Animation and Comics will further enrich our portfolio of IP including top Chinese comic IPs such as “The Outcast (一人之下)” and “The Fox Spirit Matchmaker (狐妖小紅娘).” The move also bolsters our pipeline of comic adaptations and expands our production capacity for animated series. Going forward, we plan to leverage AI technologies to enhance the adaptation of online literature into animated series and comics, accelerate the adaptation process of text-based IPs into visual formats and enhance the efficiency of content commercialization.

IP Commercialization and Monetization

- In the IP merchandise segment, we unveiled a diverse array of trendy collectibles and merchandise based on popular IPs such as “Lord of the Mysteries (詭秘之主),” “The King’s Avatar (全職高手)” and “Battle Through the Heavens (斗破蒼穹).” We have a bunch of products including blind boxes, toy collectables, accessories and cards, all of which are highly sought-after. We’ve also broadened our IP licensing, collaborating with a diverse array of consumer brands across multiple industries such as digital 3C products, food and beverages, and automotive. This has been highly popular and is effectively driving sales for our partners. In 2024, we plan to enter new merchandise categories and explore synergies between our merchandise and various content formats. By strategically timing our merchandise launches with the release of the associated film, TV series and animated series, we aim to amplify the hype surrounding our IPs.
- In the games segment, licensed games based on our popular IPs were successfully launched in 2023 including “A Record of a Mortal’s Journey to Immortality (凡人修仙傳)” and “Swallowed Star (吞噬星空).” This will be followed up with the expected launch of several other licensed games this year, including “Soul Land (斗羅大陸),” “Battle Through the Heavens (斗破蒼穹)” and “Cultivation Chat Group (聊天群的日常生活)” which have all received regulatory approval. In terms of in-house game operations, we launched expansion packs with enhanced graphics and interactive features for our classic game “New Soul Land (新斗羅大陸).” We will continue to roll out upgrades and improved gameplay to ensure our players have an exceptional gaming experience.

CEO'S STATEMENT

Innovation in Technology and Business

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

- As previously mentioned, we launched the first LLM designed specifically for the online literature industry, “Smart Pen,” and the “Smart Pen Edition for the Author Assistant Application,” which will support writers with various aspects of content creation. As AI technology continues to evolve, we see its potential to unlock significant value in our IP. AI promises to open doors for the adaption of a wider range of literary works, accelerate the transformation from text to visual formats, and pave the way for faster commercialization.
- We've officially entered the high-quality short drama segment with the rollout of our “Short Drama Star Incubation Plan.” This initiative will support more than 100 short drama series by establishing a creative fund with over RMB100 million, as well as pioneer the interactive short drama format. So far, several of our short drama series have surpassed RMB10 million in gross revenue.
- We continued to expand into overseas markets. By the end of 2023, our foreign language online reading platform, WebNovel, offered around 3,800 works translated from Chinese and about 620,000 original works created locally. We continued to enhance our AI translation models throughout the year, leading to a wealth of top-tier works being translated. In December 2023, AI-translated works accounted for 21 of the top 100 bestsellers on WebNovel. AI-driven translation is the catalyst for our multilingual expansion overseas and we expect it will continue to drive our growth and establish competitive advantages in specific genres in key overseas regions.

Outlook

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

Sincerely,

Mr. Hou Xiaonan

Executive Director, Chief Executive Officer and President

Hong Kong, March 18, 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Notes:

- (1) Revenues from online business primarily reflect revenues from online paid reading, online advertising and distribution of third-party online games on our platform.
 - (2) Revenues from intellectual property operations and others primarily reflect revenues from production and distribution of TV, web and animated series, films, licensing of copyrights, operation of self-operated online games and sales of physical books.
- Revenues from online business decreased by 9.5% to RMB3,948.1 million for the year ended December 31, 2023 on a year-over-year basis, accounting for 56.3% of total revenues.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

Notes:

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

- Average MAUs on our self-owned platform products and self-operated channels decreased by 15.7% year-over-year from 243.9 million to 205.6 million for the year ended December 31, 2023. Specially, MAUs on our self-owned platform products decreased by 4.7% year-over-year from 110.0 million to 104.8 million, mainly due to our decision to cut marketing spending on low-ROI user acquisition channels as part of our overall efforts to improve operational efficiency. At the same time, we intensified our efforts to engage our core user base, as evidenced by the continued year-over-year growth in MAUs of our flagship reading product, Qidian Reading. MAUs on our self-operated channels on Tencent products decreased by 24.7% year-over-year from 133.9 million to 100.8 million, primarily due to our efforts to optimize content offerings and distribution channels to enhance our operational efficiency.
- Average MPUs on our self-owned platform products and self-operated channels increased by 10.1% year-over-year from 7.9 million to 8.7 million for the year ended December 31, 2023. In particular, MPUs on our self-owned platform products increased by over 20% year-over-year, reflecting the positive results of our ongoing and effective anti-piracy measures, enhanced product operation capabilities, and consistent delivery of high-quality content.

MANAGEMENT DISCUSSION AND ANALYSIS

- Monthly ARPU for our pay-to-read content decreased by 14.0% year-over-year from RMB37.8 to RMB32.5 for the year ended December 31, 2023. The decrease was due to changes in the revenue mix resulting from various product offerings and a lower user expenditure from some newly converted paying users at the initial stage of their payment cycle.
- Revenues from intellectual property operations and others decreased by 6.1% year-over-year to RMB3,063.6 million for the year ended December 31, 2023.

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the years ended December 31, 2023 and 2022:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Other Financial Information

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

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Non-IFRS Financial Measures:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets increased from RMB22,734.5 million as of December 31, 2022 to RMB23,188.5 million as of December 31, 2023, while our total liabilities decreased from RMB4,779.8 million as of December 31, 2022 to RMB4,164.0 million as of December 31, 2023. The liabilities-to-assets ratio decreased from 21.0% as of December 31, 2022 to 18.0% as of December 31, 2023.

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

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

Liquidity and Financial Resources

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Capital Expenditures and Long-term Investments

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

Foreign Exchange Risk Management

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

Employees

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Issue of consideration shares under the New Earn Out Mechanism

Reference is made to:

- (i) the announcement of the Company dated August 27, 2020 and the circular of the Company dated November 10, 2020 (the “Circular”) in respect of the entering into of the Supplemental SPA Deed in relation to, among others, the amendment of the 2018 NCM Share Purchase Agreement;
- (ii) the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 in respect of, among others, the acquisition of the entire equity interest of NCM, which was completed on October 31, 2018;
- (iii) the announcements of the Company dated March 18, 2019 and March 17, 2020 in respect of, among others, the adjustment results under the Original Earn Out Mechanism for the year ended December 31, 2018 and 2019; and
- (iv) the announcements of the Company dated March 23, 2021, March 22, 2022, and March 16, 2023 in respect of, among others, the issue of Consideration Shares under the New Earn Out Mechanism.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of the annual results announcement of the Company dated March 18, 2024 (the “Announcement”) and immediately upon the completion of the 2023 Earn Out Issue:

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

DIRECTORS AND SENIOR MANAGEMENT

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

Directors

Executive Directors

Mr. Hou Xiaonan

Aged 44, is currently an Executive Director, Chief Executive Officer, the President of the Company and the chairman of the Strategy and Investment Committee of the Board. He also holds directorship in certain subsidiaries of the Company.

Mr. Hou joined the Group on April 27, 2020. He is responsible for the overall strategic planning and business operation of the Company. Mr. Hou joined Tencent in 2003 and has held various management positions for Tencent businesses including Mobile QQ, Qzone, Tencent Open Platform, YingYongBao, Qingteng and Penguin Media Content Platform, acting as a core figure in Tencent's open ecosystem strategy. He has extensive and in-depth management experience in product operation, business model innovation, and ecosystem cooperation. Mr. Hou graduated from Beijing University of Aeronautics and Astronautics in 2003, majoring in computer science, and holds an EMBA degree.

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

- Cloudary as a director;
- Cloudary HK as a director;
- China Reading HK as a director;
- China Reading Co., Ltd. as a director;
- Cloudary Singapore Private Limited as a director;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
- Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
- Webnovel Private Limited as a director;
- Beijing Hongwenguan Publishing Planning Co., Ltd. as the chairman of the board of directors;
- Hainan Yuewen Information Technology Co., Ltd. as a manager;
- New Classics Media Corporation as a director;
- New Classics (Tianjin) Media Technology Co., Ltd. as a director;
- Qisheng Culture Communication (Tianjin) Co., Ltd. as a manager;
- Shanghai Hongwen as the chairman of the board of directors and a manager;
- Shanghai Xuanting as an executive director and a manager;
- Shanghai Yueting as the chairman of the board of directors and a manager;
- Shanghai Yuechao as the chairman of the board of directors and a manager;

DIRECTORS AND SENIOR MANAGEMENT

- Shanghai Yuewen as the chairman of the board of directors and a manager;
 - Shanghai Yuehuo Information Technology Co., Ltd. as an executive director and a manager;
 - Shanghai Yuejian Information Technology Co., Ltd. as the chairman of the board of directors;
 - Shengyun Information Technology as the chairman of the board of directors and a manager;
 - Shenzhen Yuerong Information Technology Co., Ltd. as an executive director;
 - Tianjin Huawen Tianxia Book Co., Ltd. as the chairman of the board of directors;
 - Tianjin Xuanting Information Technology Co., Ltd. as a manager;
 - Yueting Information Technology (Hainan) Co., Ltd. as an executive director;
 - Yueting Information Technology (Shanghai) Co., Ltd. Beijing Branch as a principal;
 - Yueting Information Technology (Tianjin) Co., Ltd. as an executive director and a manager; and
 - Yuewen Film as a manager.
- of Baidu, Inc. (NASDAQ: BIDU; HKEX: 9888) from October 2012 to March 2015, and served as chief technology officer and the president of the Smart Education Platform Group of TAL Education Group (NYSE: TAL) from April 2015 to August 2021. Mr. Huang obtained a bachelor's degree and a master's degree, both in computer science and technology, from University of Science and Technology of China in 2003 and 2006, respectively.
- Mr. Huang currently holds positions in the following members of the Group:
- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
 - Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
 - Shengyun Information Technology as a director;
 - Shanghai Hongwen as a director;
 - Shanghai Yueting as a director;
 - Shanghai Yuechao as a director; and
 - Shanghai Yuewen as a director.

Mr. Huang Yan

Aged 40, joined the Company in November 2021 and currently serves as the vice president of the Company. He has extensive and in-depth management experience in product planning and operation. Prior to joining the Company, Mr. Huang served as the director of Platform Research and Development Line of Tencent, a controlling shareholder of the Company (as defined in the Listing Rules), from May 2008 to October 2012, served as chief research and development architect

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. James Gordon Mitchell

Aged 50, is a Non-Executive Director and the Chairman of the Board since June 2017. He is the chairman of the Nomination Committee, a member of the Remuneration Committee of the Company and a member of its Strategy and Investment Committee. Mr. Mitchell is a Senior Executive Vice President and Chief Strategy Officer of Tencent Holdings Limited (HKEX: 700), where he has worked since July 2011. He is also a director of certain other listed companies including Universal Music Group (AMS: UMG), Frontier Developments Plc (AIM:FDEV), Tencent Music Entertainment Group (NYSE:TME, HKEX:1698), and of various unlisted companies. Prior to joining Tencent, Mr. Mitchell was at Goldman Sachs. Mr. Mitchell was an executive director of NIO Inc. (NYSE: NIO) from September 2018 to February 2024. He is a CFA® and received a degree from Oxford University.

Mr. Cao Huayi

Aged 59, is a Non-Executive Director appointed on May 17, 2019 and also holds directorship in certain subsidiaries of the Company. He is the founding shareholder of Xinli (Tianjin) Media Technology Limited (“Xinli Media”). He has been the chairman of the board of directors of Xinli Media since 2007 and has served as the general manager of Xinli Media since 2013. Before the establishment of Xinli Media, Mr. Cao Huayi successively served as the general manager of Zhongsheng Chunqiu Film and Television Culture (Beijing) Co., Ltd. (中聖春秋影視文化(北京)有限公司) and the manager of Beijing Jiying Culture Company (北京集英文化公司). From 1986 to 1995, Mr. Cao served as a literary editor of Beijing Huayi Publishing House (北京華藝出版社). He graduated from the Department of Journalism at Fudan University and received a bachelor’s degree of arts from Fudan University.

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

- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- New Classics International Media Limited as a director;
- New Classics Media Corporation as the chairman of the board of directors;
- Xinli (Tianjin) Media Technology Co., Ltd. as the chairman of the board of directors;
- New Classics Media Corporation Beijing Branch as a principal;
- New Classics Media Corporation Zhejiang Dongyang Branch as a principal;
- New Classics Television Entertainment Investment Co. Ltd. as an executive director;
- New Classics Movie (Zhejiang) Co. Ltd. as an executive director;
- New Classics (Tianjin) Culture Agency Co., Ltd. as an executive director;
- Kuanghuanzhe (Tianjin) Culture Agency Co., Ltd. as an executive Director;
- Tianjin Yuexin Culture Communication Co., Ltd. as an executive director;
- Inner Mongolia Xinyoulingxi Film and Television Culture Co., Ltd. as an executive director;

DIRECTORS AND SENIOR MANAGEMENT

- New Classics Era Film and Television Culture Co., Ltd. as an executive director;
- New Classics Television Media (Beijing) Co., Ltd. as an executive director;
- Kuanghuanzhe Film Production Co., Ltd. as an executive director;
- New Classics Television (Yunnan) Culture Media Co., Ltd. as an executive director;
- New Classics (Shanghai) Film and Television Co., Ltd. as an executive director;
- Chun Shui Tang Co., Ltd. as a director;
- Sunrise Image (Hainan) Film and Television Co., Ltd. as an executive director;
- New Classics Television (Heilongjiang) Culture Media Co., Ltd. as an executive director; and
- Jiuge (Hainan) Culture Media Co., Ltd. as the chairman of the boards of directors.

Mr. Xie Qinghua

Aged 45, is a Non-Executive Director appointed on May 22, 2023. He joined Tencent Group in December 2003, and currently serves as the corporate vice president of the Tencent Group. Mr. Xie also currently serves as a non-executive director of Yixin Group Limited (HKEX: 2858), a non-executive director of Tongcheng Travel Holdings Limited (HKEX: 0780) and a director of Huya Inc. (NYSE: HUYA). Mr. Xie Qinghua obtained a bachelor's degree in economics from Sun YatSen University in 2001.

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Aged 61, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee of the Company. Ms. Yu is responsible to provide independent opinion and judgment to the Board. She held positions including director, company secretary and vice president for finance at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited) from December 2000 to January 2002, was the president and chief financial officer of Sohu.com Inc. between March 2004 and July 2016, and has been the chief executive officer of Virtues Holding Limited since February 2017. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University).

Ms. Leung Sau Ting Miranda

Aged 56, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Ms. Leung is responsible to provide independent opinion and judgment to the Board. She was a trainee at the London office of Slaughter and May from September 1990 to September 1992, an associate in the firm's Hong Kong and London offices from September 1992 to September 2001, and a partner in the firm between September 2001 and November 2016. Ms. Leung was also a director of the Lion Academy Trust from September 2015 to June 2019 and a director of CCBI Metdist Limited from November 2018 to November 2020. She has been a director of Indochina Starfish Foundation since July 2019 and a member of the with-profits committee of the board of Aviva Insurance UK since March 2020. Ms. Leung qualified as a solicitor in England & Wales in December 1992, and as a solicitor in Hong Kong in August 1993. She received her bachelor's degree in arts from Oxford University.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Junmin

Aged 74, is an Independent Non-executive Director appointed on October 26, 2017. He is a member of the Nomination Committee of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He is also an independent non-executive director of Chinese People Holdings Company Limited (HKEX: 00681). He taught in Tianjin University of Finance and Economics, and served as a lecturer from September 1982 to December 1992. He has been teaching in the Department of Economics of Nankai University since December 1992, as an associate professor from December 1993 to December 1998, and as a professor since December 1998. Mr. Liu was an independent non-executive director of China Huarong Asset Management Co., Ltd. (HKEX: 02799) from June 2015 to October 2020 and retired as an independent non-executive director of China Railway Materials Company Limited. (formerly known as Tianjin Faw Xiali Automobile Co., Ltd., SZSE: 000927) since December 2020. Mr. Liu graduated from Nankai University with a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctorate degree in economics in July 1994.

Senior Management

Mr. Hou Xiaonan

Aged 44, is currently an executive Director, Chief Executive Officer, the President of the Company and the chairman of the Strategy and Investment Committee of the Board. Mr. Hou joined the Group on April 27, 2020 and currently directorship in certain subsidiaries of the Company. He is responsible for the overall strategic planning and business operation of the Company. Mr. Hou joined Tencent in 2003 and has held various management positions for Tencent businesses including Mobile QQ, Qzone, Tencent Open Platform, YingYongBao, Qingteng and Penguin Media Content Platform, acting as a core figure in Tencent's open ecosystem strategy. He has extensive and in-depth management experience in product operation, business model innovation, and ecosystem cooperation. Mr. Hou graduated from Beijing University of Aeronautics and Astronautics in 2003, majoring in computer science, and holds an EMBA degree.

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

- Cloudary as a director;
- Cloudary HK as a director;
- China Reading HK as a director;
- China Reading Co., Ltd. as a director;
- Cloudary Singapore Private Limited as a director;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;

DIRECTORS AND SENIOR MANAGEMENT

- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
- Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
- Webnovel Private Limited as a director;
- Beijing Hongwenguan Publishing Planning Co., Ltd. as the chairman of the board of directors;
- Hainan Yuewen Information Technology Co., Ltd. as a manager;
- New Classics Media Corporation as a director;
- New Classics (Tianjin) Media Technology Co., Ltd. as a director;
- Qisheng Culture Communication (Tianjin) Co., Ltd. as a manager;
- Shanghai Hongwen as the chairman of the board of directors and a manager;
- Shanghai Xuanting as an executive director and a manager;
- Shanghai Yueting as the chairman of the board of directors and a manager;
- Shanghai Yuechao as the chairman of the board of directors and a manager;
- Shanghai Yuewen as the chairman of the board of directors and a manager;
- Shanghai Yuehuo Information Technology Co., Ltd. as an executive director and a manager;
- Shanghai Yuejian Information Technology Co., Ltd. as the chairman of the board of directors;
- Shengyun Information Technology as the chairman of the board of directors and a manager;
- Shenzhen Yuerong Information Technology Co., Ltd. as an executive director;
- Tianjin Huawei Tianxia Book Co., Ltd. as the chairman of the board of directors;
- Tianjin Xuanting Information Technology Co., Ltd. as a manager;
- Yueting Information Technology (Hainan) Co., Ltd. as an executive director;
- Yueting Information Technology (Shanghai) Co., Ltd. Beijing Branch as a principal;
- Yueting Information Technology (Tianjin) Co., Ltd. as an executive director and a manager; and
- Yuewen Film as a manager.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang Yan

Aged 40, joined the Company in November 2021 and currently serves as the vice president of the Company. He has extensive and in-depth management experience in product planning and operation. Prior to joining the Company, Mr. Huang served as the director of Platform Research and Development Line of Tencent, a controlling shareholder of the Company (as defined in the Listing Rules), from May 2008 to October 2012, served as chief research and development architect of Baidu, Inc. (NASDAQ: BIDU; HKEX: 9888) from October 2012 to March 2015, and served as chief technology officer and the president of the Smart Education Platform Group of TAL Education Group (NYSE: TAL) from April 2015 to August 2021. Mr. Huang obtained a bachelor's degree and a master's degree, both in computer science and technology, from University of Science and Technology of China in 2003 and 2006, respectively.

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

- Transread Technology Limited, a company incorporated under laws of Cayman Islands, as a director;
- Transread Technology Limited, a company incorporated under laws of Hong Kong, as a director;
- Shengyun Information Technology as a director;
- Shanghai Hongwen as a director;
- Shanghai Yueting as a director;
- Shanghai Yuechao as a director; and
- Shanghai Yuewen as a director.

REPORT OF DIRECTORS

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

Principal Activities

The principal activities of the Group include operating online literature platform, providing literary content and producing TV series and film. The activities of the principal subsidiaries are set out in Note 38 to the consolidated financial statements.

Results

The results of the Group for the year ended December 31, 2023 are set out in the consolidated statement of comprehensive income on page 110 of this annual report.

Final Dividend

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

Business Review

The business review and performance analysis of the Group for the Reporting Period is set out in the section headed “Chairman’s Statement” from pages 5 to 6, “CEO’s Statement” from pages 7 to 9, and “Management Discussion and Analysis” from pages 10 to 22 of this annual report.

Major Suppliers And Customers

Major Suppliers

For the year ended December 31, 2023, the Group’s five largest suppliers accounted for less than 30% of the Group’s total purchases.

Major Customers

For the year ended December 31, 2023, sales to the Group’s five largest customers accounted for less than 30% of the Group’s total sales for the year.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 16 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 33 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out on pages 113 to 114 in the consolidated statement of changes in equity and Note 34 and 42 to the consolidated financial statements.

REPORT OF DIRECTORS

Distributable Reserves

As of December 31, 2023, the Company's reserves available for distribution, amounted to approximately RMB13,372 million (as of December 31, 2022: RMB13,149 million).

Dividend Policy

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

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

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

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2023 are set out in Note 29 to the consolidated financial statements.

Directors

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

Executive Directors:

- Mr. 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)

REPORT OF DIRECTORS

Independent Non-Executive Directors:

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

In accordance with Article 16.2 and 16.19 of the Articles of Association, Mr. Hou Xiaonan, Mr. Huang Yan, Ms. Yu Chor Woon Carol and Mr. Liu Junmin will retire at the AGM and, being eligible, will offer themselves for re-election as Directors at the AGM.

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

Directors and Senior Management

Biographical details of the Directors and senior management of the Company are set out on pages 23 to 29 of this annual report.

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 due to the change of his personal life plan.

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 due to other work commitment.

Mr. Zou Zhengyu resigned as an Non-executive Director and the member of the Strategy and Investment Committee of the Board on June 30, 2023 due to devote more time to pursue his other personal affairs.

Confirmation of Independence of Independent Non-Executive Directors

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

Directors' Service Contracts and Letters of Appointment

Each of the executive Directors, Mr. Hou Xiaonan and Mr. Huang Yan, has entered into a service contract with the Company for a term of three years commencing from May 10, 2023 and June 30, 2023, respectively, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the service contract.

Each of the non-executive Directors, Mr. James Gordon Mitchell, Mr. Xie Qinghua, and Mr. Cao Huayi, has entered into an appointment letter with the Company for a term of three years commencing from June 30, 2023, May 22, 2023 and May 23, 2022, respectively, and subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from June 30, 2023, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

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

REPORT OF DIRECTORS

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Management Contracts

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

Directors' Rights to Acquire Shares or Debentures

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

Remuneration Policy

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

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in Note 9 to the consolidated financial statements.

Retirement and Employee Benefits Scheme

Details of the retirement and employee benefits scheme of the Company are set out in Note 9 to the consolidated financial statements.

REPORT OF DIRECTORS

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

As of December 31, 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 C3 of the Listing Rules were as follows:

Interests and Short Position in Shares, underlying Shares and Debentures 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. Hou Xiaonan	Beneficial owner	2,289,756 ⁽²⁾	Long position	0.22
Mr. Huang Yan	Beneficial owner	3,127,231 ⁽³⁾	Long position	0.31
Mr. Cao Huayi	Interest in controlled corporations	41,068,517 ⁽⁴⁾	Long position	4.01

REPORT OF DIRECTORS

Interests and Short Position in Shares, underlying Shares and Debentures 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 ⁽⁸⁾ (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	16,121,146 ⁽⁵⁾	0.17
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	145,805	0.00
Mr. Huang Yan	Tencent Holdings Limited	Beneficial owner	22,500	0.00
Mr. Xie Qinghua	Tencent Holdings Limited	Beneficial owner	159,366 ⁽⁶⁾	0.00
Mr. Cao Huayi	Tencent Holdings Limited	Interest in controlled corporations	270,000 ⁽⁷⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,023,393,477 Shares in issue as at December 31, 2023.
- (2) As at December 31, 2023, these interests comprised (i) 67,988 Shares, (ii) 28,018 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 2021 Share Option Plan.
- (3) As at December 31, 2023, these interests comprised (i) 200,240 Shares, (ii) 276,360 underlying Shares in respect of the RSUs granted to Mr. Huang Yan under the RSU Plan of the Company, and (iii) 2,650,631 underlying Shares in respect of the Options granted to Mr. Huang Yan under the 2021 Share Option Plan.
- (4) As at December 31, 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 5,951,056 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (5) As at December 31, 2023, these interests comprised (i) 5,339,077 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 December 31, 2023, these interests comprised (i) 68,859 shares of Tencent, (ii) 90,437 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.
- (7) As at December 31, 2023, Mr. Cao Huayi was interested in 100% of C-Hero Limited and was therefore deemed to be interested in the 270,000 shares of Tencent in C-Hero Limited.
- (8) The calculation is based on the total number of 9,482,992,820 shares of Tencent in issue as at December 31, 2023, and the total number of 3,432,154,262 ordinary shares of Tencent Music Entertainment Group in issue according to its latest company filing (where applicable).

REPORT OF DIRECTORS

Save as disclosed above, as of December 31, 2023, none of the Directors or chief executives of the Company has or was deemed to have any other interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the year ended December 31, 2023, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any other interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

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

As of December 31, 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 ⁽²⁾	Interest in controlled corporations	577,643,604	Long position	56.44
THL A13 Limited ⁽²⁾	Beneficial owner	268,600,500	Long position	26.25
Qinghai Lake Investment Limited ⁽²⁾	Beneficial owner	230,705,634	Long position	22.54
Tencent Mobility Limited ⁽²⁾	Beneficial owner	78,337,470	Long position	7.65

Notes:

(1) The calculation is based on the total number of 1,023,393,477 Shares in issue as of December 31, 2023.

(2) As at December 31, 2023, THL A13, Qinghai Lake and 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.

REPORT OF DIRECTORS

Save as disclosed above, as of December 31, 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

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

Purpose

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

Eligible Participants

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

Maximum Numbers of Shares

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

Maximum entitlement of each participant

The maximum number of awarded shares underlying the RSUs which may be awarded to a selected participant under the RSU Plan shall not exceed 1% of the issued Shares of the Company as at the adoption date of the RSU Plan.

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).

REPORT OF DIRECTORS

Restricted Stock Units

Award of Restricted Stock Units

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

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

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

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

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.

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 respectively.

REPORT OF DIRECTORS

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 respectively.

The RSUs granted in respect of 7,160,000 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 respectively.

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 respectively.

The RSUs granted in respect of 5,690,000 underlying Shares on April 10, July 10 and November 5, 2019 have a vesting period of five years, one-fifth of which will each vest on April 10, July 10, 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 940,097 underlying Shares on May 23, August 21, and December 28, 2023 have a vesting period of five years, one-fifth of which will each vest on May 23, August 21, and December 28, 2024, 2025, 2026, 2027 and 2028 respectively.

REPORT OF DIRECTORS

Details of movements of outstanding RSUs granted by the Company pursuant to the RSU Plan during the reporting period are set out below:

Selected Grantees	Date of Grant	As at January 1, 2023	Number of RSUs					As at December 31, 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 year ⁽³⁾ HKD
			Granted during the year ⁽¹⁾	Vested during the year ⁽²⁾	Forfeited during the year	Cancelled during the year					
Huang Yan	November 5, 2021	368,480	-	92,120	-	-	276,360	November 5, 2022 – November 5, 2026	53.25		
Employee Participants 5 highest paid individuals during the financial year (in aggregate)	November 5, 2019	20,000	-	10,000	-	-	10,000	November 5, 2020 – November 5, 2024	30.65		
	January 4, 2021	41,192	-	10,297	-	-	30,895	January 4, 2022 – January 4, 2026	60.85		
	January 10, 2022	70,101	-	14,020	-	-	56,081	January 10, 2023 – January 10, 2027	48.25		
Employees (excluding 5 highest paid individuals) (in aggregate)	October 29, 2018	248,000	-	225,000	23,000	-	-	October 29, 2019 – October 29, 2023	40.85		
	April 10, 2019	94,000	-	47,000	6,000	-	41,000	April 10, 2020 – April 10, 2024	38.35		
	July 10, 2019	59,200	-	29,600	-	-	29,600	July 10, 2020 – July 10, 2024	37.20		
	November 5, 2019	1,197,200	-	551,200	98,800	-	547,200	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	-	65,000	86,101	-	98,000	September 4, 2021 – September 4, 2025	55.95		
	January 4, 2021	359,637	-	89,904	136,647	-	133,086	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	-	7,542	22,630	-	-	July 12, 2022 – July 12, 2026	80.65		
	October 18, 2021	331,803	-	35,343	208,807	-	87,653	October 18, 2022 – October 18, 2026	56.80		
	November 5, 2021	87,514	-	21,877	-	-	65,637	November 5, 2022 – November 5, 2026	53.25		
	January 10, 2022	740,224	-	148,041	107,848	-	484,335	January 10, 2023 – January 10, 2027	48.25		
	April 6, 2022	955,921	-	191,175	322,834	-	441,912	April 6, 2023 – April 6, 2027	34.40		
	August 18, 2022	164,400	-	24,000	44,400	-	96,000	August 18, 2023 – August 18, 2027	29.40		
	December 28, 2022	89,220	-	17,843	-	-	71,377	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		
August 21, 2023	-	283,594	-	-	-	283,594	August 21, 2024 – August 21, 2028	31.55	30.85		
December 28, 2023	-	556,260	-	-	-	556,260	December 28, 2024 – December 28, 2028	28.00	28.75		
Total		5,322,457	940,097	1,643,782	1,057,067	-	3,561,705				

REPORT OF DIRECTORS

* Notes:

1. The RSUs were granted at nil purchase price.
2. 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 2023 was HKD31.12 per Share.
3. 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.
4. Mr. Huang Yan has been appointed as an executive Director on June 30, 2023.
5. None of the grants of awards to any participant is in excess of the 1% individual limit.
6. All of the grants made during the year ended 31 December 2023 were made without any performance targets.
7. During the reporting period, no RSUs were lapsed or cancelled 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	940,097
Forfeited	(1,057,067)
Vested	(1,643,782)
Outstanding balance as of December 31, 2023	3,561,705
As of January 1, 2022	7,304,840
Granted	2,035,302
Forfeited	(842,617)
Vested	(3,175,068)
Outstanding balance as of December 31, 2022	5,322,457

REPORT OF DIRECTORS

2020 Restricted Share Unit Scheme

The 2020 Restricted Share Unit Scheme was adopted by the Board resolution passed on May 15, 2020 and amended by the Shareholders' resolution passed on May 22, 2023. 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.

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.

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 annual 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.

REPORT OF DIRECTORS

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 2021 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.

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.

REPORT OF DIRECTORS

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

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 other payment to the Company to accept the RSUs granted.

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.

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.

The RSUs granted in respect of 3,057,072 underlying Shares on August 21, 2023 have a vesting period of four years, one-fourth of which will each vest on August 21, 2024, 2025, 2026 and 2027, respectively.

REPORT OF DIRECTORS

Details of movements of outstanding RSUs granted by the Company pursuant to the 2020 Restricted Share Unit Scheme during the reporting period are set as below:

Selected Grantees	Date of Grant	Number of RSUs						Vesting Period	Fair value of RSUs	
		As at January 1, 2023	Granted during the year ⁽¹⁾	Vested during the year ⁽²⁾	Lapsed during the year	Cancelled during the year	As at December 31, 2023		Closing Price of the Shares immediately before the Date of Grant HKD	at the Date of Grant per Share during the year end December 31, 2023 ⁽³⁾ HKD
Hou Xiaonan	September 1, 2020	56,036	-	28,018	-	-	28,018	September 1, 2021 – September 1, 2024	48.15	
Cheng Wu	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	-	70,605	-	-	70,607	September 1, 2021 – September 1, 2024	48.15	
	August 18, 2022	72,000	-	18,000	-	-	54,000	August 18, 2023 – August 18, 2026	29.40	
Employees (excluding 5 highest paid individuals) (in aggregate)	September 1, 2020	1,072,407	-	501,914	90,104	-	480,389	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	-	351,659	107,083	-	657,057	July 12, 2022 – July 12, 2025	80.65	
	September 16, 2021	44,505	-	13,846	2,967	-	27,692	September 16, 2022 – September 16, 2025	65.10	
	August 18, 2022	3,421,301	-	809,570	462,831	-	2,148,900	August 18, 2023 – August 18, 2026	29.40	
	October 12, 2022	484,295	-	97,851	92,878	-	293,566	October 12, 2023 – October 12, 2026	20.30	
	December 28, 2022	57,101	-	14,275	-	-	42,826	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
	August 21, 2023	-	3,057,072	-	58,066	-	2,999,006	August 21, 2024 – August 21, 2027	31.55	30.85
Total		6,690,316	3,059,259	1,957,050	966,351	-	6,826,174			

REPORT OF DIRECTORS

Notes:

1. The RSUs were granted at nil purchase price.
2. 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 2023 was HKD31.76 per Share.
3. 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.
4. 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.
5. None of the grants of awards to any participant is in excess of the 1% individual limit. Save for Mr. Hou Xiaonan and Mr. Cheng Wu, none of the participant mentioned in the table above is a director, chief executive or substantial shareholder of the Company or any of their respective associate, or a related entity participant or service provider of the Company.
6. All of the grants made during the year ended December 31, 2023 were made without any performance targets.
7. As at January 1, 2023 and December 31, 2023, the total numbers of RSUs available for grant under the scheme limit of the 2020 Restricted Share Unit Scheme were 37,008,888 and 34,915,980, respectively.
8. As at January 1, 2023 and December 31, 2023, the total numbers of Shares underlying the RSUs available for grant under the Service Provider Sublimit were 5,076,192 and 5,076,192, respectively.
9. As at the date of this annual report, the total number of Shares available for issue under the 2020 Restricted Share Unit Scheme was 41,742,154, representing 4.08% of the issued Shares.
10. During the reporting period, no RSUs were cancelled under the 2020 Restricted Share Unit Scheme.

Movements in the number of RSUs outstanding are as follows:

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

REPORT OF DIRECTORS

2021 Share Option Plan

The 2021 Share Option Plan was approved by the Shareholders' resolution passed on May 24, 2021, and amended by the Shareholders' resolution passed on May 22, 2023. For further details of the 2021 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.

Effectiveness and Duration

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 (the "Option"), 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 Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Plan.

Purpose

The purpose of the 2021 Share Option Plan was to provide incentives and rewards to the directors, employees, advisors, consultants and business partners of the Group for their contributions to, and continuing efforts to promote the interest of, the Company.

Administration

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

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

An amount of RMB1.00 is payable by the Grantee to the Company upon acceptance of the offer of Options within three (3) days after such acceptance or other time as prescribed by the Company, and such remittance shall not be refundable and shall not be deemed to be a part payment of the subscription price of the Option.

REPORT OF DIRECTORS

Eligible Participants

The Eligible Participants for the 2021 Share Option Plan include (i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Related Entity (as defined in the 2021 Share Option Plan), and (ii) any Service Provider (as defined in the 2021 Share Option Plan) who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group. The Eligible 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.

Scheme Limit

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

Without prejudice to the foregoing, the total number of Shares to be issued to the service providers underlying the 2021 Share Option Plan 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 maximum number of Shares which may be issued in respect of all Options to be granted under the 2021 Share Option Plan, 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 the date of approval of the Share Option Plan, being May 24, 2021. The Company will be allowed to issue a maximum of 101,880,567 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 2020 Restricted Share Unit Scheme (whichever is lower).

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

Option Terms and Exercise of Options

The subscription price of Options shall be a price determined by the Board or the Chairman (as the case may be) and notified to any Grantee and will be the highest of: (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Grant Date of the relevant Options, which must be a business day; (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the grant date of the relevant Options; and (c) the nominal value per Share on the grant date of the relevant Options.

The vesting period of the Options shall be determined by the Board or the Chairman (as the case may be) and in no case the vesting period shall be less than twelve (12) months or such period as the Listing Rules may prescribe or permit.

The 2021 Share Option Plan does not provide for any performance target that must be achieved before the Option(s) can be vested or exercised.

REPORT OF DIRECTORS

Details of the Options Granted under the 2021 Share Option Plan

The Option must be exercised no more than ten years from the Grant Date.

As at December 31, 2023, there were a total of 7,036,047 outstanding Options granted to directors of the Company, details of which are as follows:

Selected Grantees	Position	Date of Grant	Number of Options					As at December 31, 2023	Exercise price HKD	Exercise Period	Closing Price of the Options immediately before the Date of Grant HKD	Fair Value of Options at the Date of Grant ^(B) HKD
			As at January 1, 2023	Granted during the year	Exercised during the year	Lapsed during the year ^(A)	Cancelled during the year					
Hou Xiaonan	Director	July 12, 2021	543,750	-	-	-	-	543,750	82.85	July 12, 2021 – July 11, 2031 (Note 1)	80.65	
	Director	August 18, 2022	1,650,000	-	-	-	-	1,650,000	30.69	August 18, 2022 – August 17, 2032 (Note 2)	29.40	
Huang Yan	Director	November 5, 2021	1,786,539	-	-	-	-	1,786,539	53.14	November 5, 2021 – November 4, 2031 (Note 3)	53.25	
	Director	August 18, 2022	360,002	-	-	-	-	360,002	30.69	August 18, 2022 – August 17, 2032 (Note 3)	29.40	
	Director	August 21, 2023	-	504,090	-	-	-	504,090	32.06	August 21, 2023 – August 20, 2033 (Note 3)	31.55	11.60
Cheng Wu	Director	July 12, 2021	725,000	-	-	-	-	725,000	82.85	July 12, 2021 – June 30, 2024 (Note 1)	80.65	
	Director	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	504,090	-	733,334	-	7,036,047				

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. No Options were exercised or cancelled during the year ended December 31, 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.
- Details of the valuation of Options under the Share Option Plan during the year ended December 31, 2023, including the accounting standard and policy adopted for all the Company's schemes, are set out in Note 35 and Note 2.18 to the consolidated financial statements.
- All of the grants made during the year ended December 31, 2023 were made without any performance targets.

REPORT OF DIRECTORS

Details of movements of outstanding Options granted to employees of the Group (apart from director(s) of the Company) who are independent third parties of the Company during the year ended December 31, 2023 are as follows:

Date of Grant	Number of Options					As at December 31, 2023	Exercise price HKD	Exercise Period	Closing Price of the Options immediately before the Date of Grant HKD	Fair Value of Options at the Date of Grant ⁽⁶⁾ HKD
	As at January 1, 2023	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					
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	
August 21, 2023	-	1,105,459	-	-	-	1,105,459	32.06	August 21, 2023 – August 20, 2033 (Note 1)	31.55	11.60
Total	1,977,722	1,105,459	-	55,705	-	3,027,476				

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. No options were exercised or cancelled during the year ended December 31, 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. Save for Mr. Hou Xiaonan, Mr. Huang Yan and Mr. Cheng Wu, none of the participant mentioned in the tables above is a director, chief executive or substantial shareholder of the Company or any of their respective associate, or a related entity participant or service provider of the Company.
- As at January 1, 2023 and December 31, 2023, the total numbers of Shares underlying Options available for grant under the Service Provider Sublimit were 5,076,192 and 5,076,192, respectively.
- Details of the valuation of Options under the Share Option Plan during the year ended December 31, 2023, including the accounting standard and policy adopted for all the Company's schemes, are set out in Note 35 and Note 2.18 to the consolidated financial statements.
- All of the grants made during the year ended December 31, 2023 were made without any performance targets.

REPORT OF DIRECTORS

Movements in the number of Options outstanding are as follows:

	Number of Options
As of January 1, 2023	9,243,013
Granted	1,609,549
Lapsed	(789,039)
Cancelled	–
Outstanding balance as of December 31, 2023	10,063,523
Exercisable as of December 31 2023	5,504,884

The total number of Shares available for issue under the 2021 Share Option Plan is 25,470,141, which represents approximately 2.49% of the issued shares of the Company as at the date of this annual report.

As at January 1, 2023 and December 31, 2023, the total numbers of Options available for grant under the scheme limit of the Share Option Plan were 12,420,878 and 11,600,368, respectively.

The total number of Shares that may be issued in respect of options and awards under all schemes of the Company during the year ended December 31, 2023 divided by the weighted average number of Shares in issue for the year ended December 31, 2023 was 0.56%.

Equity-Linked Agreements

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

Purchase, Sale or Redemption of Listed Securities of the Company

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

Pre-Emptive Rights

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

Directors' Interest in Competing Business

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

REPORT OF DIRECTORS

Connected Transaction and Continuing Connected Transactions

The Group has entered into the following connected transaction and continuing connected transactions during the year ended December 31, 2023:

Connected Transaction

The Acquisition of Assets

On December 11, 2023, the Company, Shanghai Yuewen, Shanghai Yueting, Shanghai Hongwen (collectively, the “Purchasers”) have entered into the asset transfer agreement (the “Asset Transfer Agreement”) with Tencent Computer, Shenzhen Tencent Animation and Comics Company limited (深圳市騰訊動漫有限公司), Tencent Technology, Tencent Shanghai, Tencent Pictures and Guangxi Tencent Venture Capital Co., Ltd., all being wholly-owned subsidiaries of Tencent and thus connected persons of the Company, (collectively, the “Sellers”) pursuant to which, the Purchasers have conditionally agreed to acquire, and the Sellers have conditionally agreed to sell certain assets at a consideration of RMB600 million to be settled in cash subject to downward adjustments according to the Asset Transfer Agreement. This Acquisition will further enrich China Literature’s portfolio of top-tier IP and improve the user experience, strengthen creator resources and optimize the content ecosystem and enhance China Literature’s capabilities in adapting literary works into animation and comics and accelerate the monetization potential of literary works.

For further details of the aforementioned acquisition of assets, please refer to the announcement of the Company dated December 11, 2023.

Non-exempt Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions (the “Continuing Connected Transactions”) for the Company for the year ended December 31, 2023.

1. Promotion Cooperation Framework Agreement

On August 15, 2022, Shanghai Yueting (on behalf of the Group) entered into a promotion cooperation framework agreement (the “Promotion Cooperation Framework Agreement”) with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall promote the Group’s products or services on platforms of the Retained Tencent Group or third parties which are recognized by both parties. The means of the promotion services shall include, but not limited to provision of links to products, content or services of the Group, distribution of red packets (紅包), and optimization of search results. In return for the promotion services, the Group shall pay promotion services fees. The payment and settlements for the promotion service payable by the Group should be calculated on (i) fixed fee; (ii) revenue/profit sharing; or (iii) the mixture of (i) and (ii). The term of the Promotion Cooperation Framework Agreement shall commence from January 1, 2023 and expire on December 31, 2025. For further details of the Promotion Cooperation Framework Agreement, please refer to the announcements of the Company dated August 15, 2022.

REPORT OF DIRECTORS

The annual cap for the year ended December 31, 2023 is RMB289.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB84.4 million.

2. Payment Services Cooperation Framework Agreement

On August 15, 2022, Shanghai Yueting (on behalf of the Group) entered into a payment services cooperation framework agreement (the “Payment Services Cooperation Framework Agreement”) with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide the Group with payment services through its channels so as to enable the Group’s users to conduct online transactions. In return for the payment services, the Group shall pay services commissions. The precise scope of service, commission rates, cooperation platform and settlement terms shall be agreed separately between the relevant parties in implementation agreements. The term of the Promotion Cooperation Framework Agreement shall commence from January 1, 2023 and expire on December 31, 2025. For further details of the Payment Services Cooperation Framework Agreement, please refer to the announcement of the Company dated August 15, 2022.

On December 11, 2023, the Board resolved to revise the annual caps under the Payment Services Cooperation Framework Agreement by entering into the Revised Payment Services Cooperation Framework Agreement. For further details of the revised annual caps of the Revised Payment Services Cooperation Framework Agreement, please refer to the announcements of the Company dated December 11, 2023.

The annual cap for the year ended December 31, 2023 is RMB40.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB26.5 million.

3. Cloud Services and Technical Services Framework Agreement

On August 15, 2022, Shanghai Yueting (on behalf of the Group) entered into a cloud services and technical services framework agreement (the “Cloud Services and Technical Services Framework Agreement”) with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide cloud services and other technical services to the Group for service fees. Cloud services and other technical services shall include: cloud services, technology and engineering group services and Business group platform services. In return for the cloud services and other technical services, the Group shall pay services fees. The precise scope of services, payment and settlement terms shall be agreed separately between the parties in implementation agreements. The term of the Cloud Services and Technical Services Framework Agreement shall commence from January 1, 2023 and expire on December 31, 2025. For further details of the Cloud Services and Technical Services Framework Agreement, please refer to the announcement of the Company dated August 15, 2022.

REPORT OF DIRECTORS

On December 11, 2023, the Board resolved to revise the service scope and annual caps under the Cloud Services and Technical Services Framework Agreement by entering into the revised cloud services and technical services framework agreement pursuant to which the service scope thereunder was extended to include AI technologies, large language model and cloud graphic processing unit service. For further details of the Revised service scope and annual caps of the Revised cloud services and technical services framework agreement, please refer to the announcements of the Company dated December 11, 2023.

The annual cap for the year ended December 31, 2023 is RMB120.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB95.4 million.

4. Online Platform Cooperation Framework Agreement

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an online platform cooperation framework agreement (the “Online Platform Cooperation Framework Agreement”) in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through our self-operated channels on the Retained Tencent Group channels (the “Retained Tencent Group Channels”). In respect of literary works, the Retained Tencent Group shall provide the end users of the Retained Tencent Group Channels with access to the Group’s authorized literary works so that they can preview the literary works or enjoy free or paid online reading services. The Group shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute the literary works of the Group through other channels. The Group shall have access to the data of back-end technology channels of the relevant Retained Tencent Group Channels to the extent permitted by laws and regulations. In respect of audio works operated by the Group, the Retained Tencent Group shall provide the end users of the Retained Tencent Group Channels with access to the Group’s audio works so that they can enjoy free or paid online listening services. The Group shall operate the distribution channels as authorized by the Retained Tencent Group and determine the operation and pricing strategies relating to the audio works. The Retained Tencent Group shall provide all necessary assistance.

REPORT OF DIRECTORS

The Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group. In return, the Group shall pay distribution fees to the Retained Tencent Group or share its revenue/profit with the Retained Tencent Group for revenue/profit of literary works/audio works generated through online platform cooperation.

The term of the Online Platform Cooperation Framework Agreement shall commence on January 1, 2022 and expire on December 31, 2024. For further details of the Online Platform Cooperation Framework Agreement, please refer to the announcement of the Company dated August 16, 2021 and the circular of the Company dated November 5, 2021.

The annual caps for the aggregate amounts payable by the Group to the Retained Tencent Group under the Online Platform Framework Agreement in respect of literary works and audio works for the year ended December 31, 2023 are RMB809.0 million and RMB5.0 million, respectively, while the actual transaction amounts in respect of literary works and audio works for the year ended December 31, 2023 are approximately RMB89.9 million and RMB0.0 million, respectively.

5. IP Cooperation Framework Agreement

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an IP cooperation framework agreement (the “IP Cooperation Framework Agreement”) in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works and comics) and/or licensing of the elements of these works. Forms of cooperation under the IP Cooperation Framework Agreement include adaptation by the Retained Tencent Group of our literary works into movies, television series, games, audio works, animations or comics, licensing by us of the information network transmission rights of works (including but not limited to literary works, audio and comics) and licensing by us of the elements of literary works, audio works and comics (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) to the Retained Tencent Group. The relevant parties agree on the following fee terms pursuant to IP Cooperation Framework Agreement: (a) fixed payment from the licensee to the licensor; (b) revenue/profit sharing between the parties; and (c) a mix of the foregoing two commercial arrangements.

The term of the IP Cooperation Framework Agreement shall commence on December 9, 2021, being the date of the Shareholders approving the IP Cooperation Framework Agreement, and expire on December 31, 2023. For further details of the IP Cooperation Framework Agreement, please refer to the announcement of the Company dated August 16, 2021 and the circular of the Company dated November 5, 2021.

REPORT OF DIRECTORS

As the IP Cooperation Framework Agreement expired on December 31, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the IP Cooperation Framework Agreement (“2024 IP Cooperation Framework Agreement”) for a further term of three years (from January 1, 2024 to December 31, 2026). For further details of the renewal of the IP Cooperation Framework Agreement, please refer to the announcement of the Company dated August 10, 2023 and the circular of the Company dated November 20, 2023.

The annual cap for the revenue of fees payable by the Retained Tencent Group to the Group under the IP Cooperation Framework Agreement for the year ended December 31, 2023 is RMB1,514.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB1,006.1 million.

6. Advertisement Cooperation Framework Agreement

On August 16, 2021, Shanghai Yueting (on behalf of the Group) entered into an advertisement cooperation framework agreement (the “Advertisement Cooperation Framework Agreement”) with Tencent Computer (on behalf of the Retained Tencent Group) in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the self-owned platforms and self-operated channels on Tencent products. The Retained Tencent Group shall pay commissions to the Group in return. Payment and settlement terms under the Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Advertisement Cooperation Framework Agreement.

The term of the Advertisement Cooperation Framework Agreement shall commence on January 1, 2022 and expire on December 31, 2024. For further details of the Advertisement Cooperation Framework Agreement, please refer to the announcement of the Company dated August 16, 2021 and the circular of the Company dated November 5, 2021.

The annual cap for the aggregate amount of the revenue generated under the Advertisement Cooperation Framework Agreement for the year ended December 31, 2023 is RMB2,026.7 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB334.2 million.

7. Game Cooperation Agreement

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

REPORT OF DIRECTORS

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

As the Game Cooperation Agreement expired on December 31, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Game Cooperation Agreement for a further term of three years (from January 1, 2024 to December 31, 2026). For further details of the renewal of the Game Cooperation Agreement, please refer to the announcement of the Company dated August 10, 2023.

The annual cap of (i) the distribution fee payable and/or revenue to be shared by the Group to the Retained Tencent Group for the year ended December 31, 2023 is RMB90.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB10.9 million; and (ii) the distribution fee payable and/or revenue to be shared by the Retained Tencent Group to the Group for the year ended December 31, 2023 is RMB5.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB0.0 million.

8. Virtual Services Purchase Agreement

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

As the Virtual Services Purchase Agreement expired on December 31, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Virtual Services Purchase Agreement for a further term of three years (from January 1, 2024 to December 31, 2026). For further details of the renewal of the Virtual Services Purchase Agreement, please refer to the announcement of the Company dated August 10, 2023.

The annual cap for the year ended December 31, 2023 is RMB70.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB3.3 million.

REPORT OF DIRECTORS

9. Joint Investment Agreement

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

As the Joint Investment Agreement expired on December 31, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Joint Investment Agreement for a further term of three years (from January 1, 2024 to December 31, 2026). For further details of the renewal of the Joint Investment Agreement, please refer to the announcements of the Company dated August 10, 2023, the supplemental announcement of the Company dated September 8, 2023 and the circular of the Company dated November 20, 2023.

The annual cap for the year ended December 31, 2023 is RMB950.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB1.0 million.

10. Comprehensive Cooperation Agreement

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

The annual cap of the aggregate amounts of the fees payable by the Sogou Group to the Group for the year ended December 31, 2023 is RMB100.5 million, while the actual transaction amount for the year ended December 31, 2023 is RMB0.0 million.

REPORT OF DIRECTORS

11. Distribution Framework Agreement

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

The Distribution Framework Agreement was expired on December 31, 2023 and the cooperation under the Distribution Framework Agreement would be covered by the IP cooperation framework agreement entered into by Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 10, 2023 (the “2024 IP Cooperation Framework Agreement”). For further details of the 2024 IP Cooperation Framework Agreement, please refer to the announcement of the Company dated August 10, 2023 and the circular of the Company dated November 20, 2023.

The annual cap for the year ended December 31, 2023 is RMB2,400.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB388.9 million.

12. Media Production Consignment Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a media production consignment agreement (the “Media Production Consignment Agreement”), pursuant to which the Retained Tencent Group shall cooperate with the Group on: (i) production: the Group shall film and produce the film and television contents, including but not limited to the films, television series, and animations for the Retained Tencent Group, and/or (ii) distribution: the Group shall distribute the film and television contents, including but not limited to the films, television series, and animations for the Retained Tencent Group. In return for the production and distribution, the Retained Tencent Group shall pay production fees and distribution fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee; (ii) revenue/profit sharing; or (iii) a mix of (i) and (ii). The term of the Media Production Consignment Agreement shall commence on January 1, 2021 and expire on December 31, 2023. For further details of the Media Production Consignment Agreement, please refer to the announcement of the Company dated August 11, 2020.

REPORT OF DIRECTORS

As the Media Production Consignment Agreement expired on December 31, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Media Production Consignment Agreement for a further term of three years (from January 1, 2024 to December 31, 2026). For further details of renewal of the Media Production Consignment Agreement, please refer to the announcement of the Company dated August 10, 2023.

The annual cap for the year ended December 31, 2023 is RMB220.0 million, while the actual transaction amount for the year ended December 31, 2023 is RMB35.2 million.

13. Copyright License Agreement

On May 23, 2022, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a copyright license agreement (the “Copyright License Agreement”) pursuant to which the Retained Tencent Group shall license the copyrights to the Group including but not limited to: (i) the adaptation rights and other adaptation-related rights of various works (including but not limited to games, literary works and comics) and the Group shall have the right to adapt such works to comics, animation, films and television series, games, audio works, stage plays and other products; (ii) (a) the information network transmission rights, (b) the projection rights, (c) the broadcast rights, (d) the translation rights, and (e) other rights related to the aforementioned rights, of various works (including but not limited to literary works, audio works, comics, animation, and films and television series); and (iii) the license of (a) the elements (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) of literary works, audio works, films and television series, games, comics, animation and other works of which the Retained Tencent Group has legal rights, and (b) certain trademarks, copyrights and other rights related to the aforementioned rights. In return for the licensing of the copyrights, the Group shall pay licensing fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee; (ii) revenue/profit sharing; or (iii) the mixture of (i) and (ii). The term of the Copyright License Agreement shall commence on May 23, 2022 and expire on December 31, 2024. For further details of the Copyright License Cooperation Framework Agreement, please refer to the announcements of the Company dated May 23, 2022.

REPORT OF DIRECTORS

The annual cap for the year ended December 31, 2023 is RMB217.0 million, while the actual transaction amount for the year ended December 31, 2023 is approximately RMB30.5 million.

14. E-Publishing Framework Agreement

On March 22, 2022, Shanghai Yueting (on behalf of the Group) entered into an E-publishing framework agreement (the “E-Publishing Framework Agreement”) with Ookbee Company Limited (“Ookbee”, a 30%-controlled company and an associate of Tencent, on behalf of itself, its subsidiaries and associates from time to time, collectively, “Ookbee Group”), in relation to, among other things, the cooperation in the e-publishing rights and/or the rights for publication of physical books in Thailand. Forms of cooperation under the E-Publishing Framework Agreement include but not limited to the following: (1) licensing of the e-publishing rights (電子發行權) of the literary works, audio works and comics by us to the Ookbee Group; and/or (2) licensing of the rights for publication of physical books (紙質圖書出版權) by us to the Ookbee Group. In return, the Ookbee Group shall pay licensing fees based on one of the following methods, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee, (ii) revenue/profit sharing, or (iii) the mixture of (i) and (ii). Payment and settlement terms under the E-Publishing Framework Agreement shall be specified in each of the implementation agreements to be entered into under the E-Publishing Framework Agreement.

The term of the E-Publishing Framework Agreement shall commence on March 22, 2022 and expire on December 31, 2024. For further details of the E-Publishing Framework Agreement, please refer to the announcement of the Company dated March 22, 2022.

The annual cap for the year ended December 31, 2023 is RMB22.3 million, while the actual transaction amount for the year ended December 31, 2023 is RMB1.3 million.

15. Game Copyright Cooperation Framework Agreement

On March 22, 2022, Shanghai Yueting (on behalf of the Group) entered into an Game Copyright Cooperation Framework Agreement (the “Game Copyright Cooperation Framework Agreement”) with Cangqiong Entertainment (Tianjin) Cultural Communication Co., Ltd (蒼穹互娛(天津)文化傳播有限公司, “Cangqiong Entertainment”, a 30%-controlled company and an associate of Tencent, on behalf of itself and its subsidiaries from time to time, collectively, “Cangqiong Group”), pursuant to which the Cangqiong Group agreed to exclusively license its adaptation right of the literary works into games to us. In return, we shall pay licensing fees based on one of the following methods, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee, (ii) revenue/profit sharing, or (iii) the mixture of (i) and (ii). Payment and settlement terms under the Game Copyright Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Game Copyright Cooperation Framework Agreement.

The term of the Game Copyright Cooperation Framework Agreement shall commence on March 22, 2022 and expire on December 31, 2024. For further details of the Game Copyright Cooperation Framework Agreement, please refer to the announcement of the Company dated March 22, 2022.

The annual cap for the year ended December 31, 2023 is RMB70.0 million, while the actual transaction amount for the year ended December 31, 2023 is RMB27.5 million.

REPORT OF DIRECTORS

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

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

- (a) in the ordinary and usual course of business of our Group;
- (b) on normal commercial terms or better; and
- (c) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 52 to 61 of this annual report in accordance with Rule 14A.56 of the Listing Rules.

The Auditor of the Company has performed agreed-upon procedures regarding the continuing connected transactions entered into by the Group during the year ended December 31, 2023 as set out above and states that:

- (a) nothing has come to its attention that causes it to believe that the disclosed Continuing Connected Transactions have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (c) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) nothing has come to its attention that causes it to believe that such Continuing Connected Transactions have exceeded the annual caps as set by the Company.

Certain related party transactions as disclosed in Note 39 to the consolidated financial statements constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

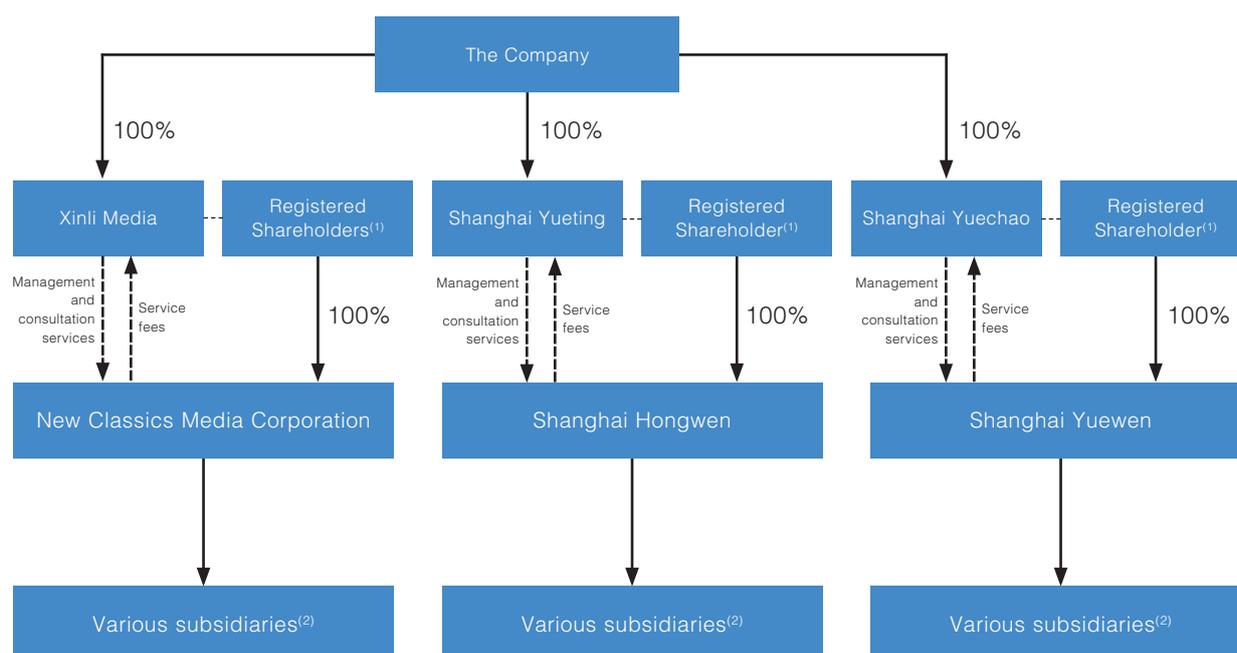
Save as disclosed in this annual report, during the year ended December 31, 2023, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

REPORT OF DIRECTORS

Contractual Arrangements

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

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



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

“-→” denotes contractual relationship.

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

Notes:

- (1) In the case of the Wen VIE, Registered Shareholder refers to the registered shareholder of the PRC Holdcos, namely Litong. Litong holds the entire equity interests of the PRC Holdcos. Litong is a subsidiary of Tencent. In the case of the NCM VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, holding 40.0%, 6.7%, 34.0%, 15.3% and 4.1% of the equity interests, respectively in the PRC Holdco.
- (2) These include certain investment vehicles which do not currently carry out any business operations but are intended for potential investment in businesses which are subject to foreign investment restrictions in accordance with the Negative List.

REPORT OF DIRECTORS

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

(a) Exclusive Business Cooperation Agreements

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

subject to any necessary adjustment by the WFOEs of the scope and amount of service fees according to the PRC tax laws and practices.

(b) Exclusive Option Agreements

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

(c) Equity Pledge Agreements

Under the Equity Pledge Agreements entered into among the WFOE(s), the Registered Shareholder(s) and the PRC Holdco(s) on the Contractual Arrangements Date, the Registered Shareholders agreed to pledge all their/its respective equity interests in the PRC Holdco(s) that they/it own, including any interest or dividend paid for the equity interests, to the WFOE(s) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements. The pledge in respect of the PRC Holdco(s) takes effect upon the completion of registration with the relevant administration for market regulation

REPORT OF DIRECTORS

and shall remain valid until after all the contractual obligations of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholder(s) and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully paid.

(d) Powers of Attorney

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

In relation to the contractual arrangements under the Wen VIE Structure, the Company will fulfill and comply with the same conditions as those imposed on the contractual arrangements under the Wen VIE as disclosed on pages 280 to 282 of the Prospectus, mutatis mutandis. For further details of the Wen VIE Structure (including the reproduction of the Contractual Arrangements), please refer to the announcement of the Company dated March 22, 2022.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our PRC Holdco(s) and/or Consolidated Affiliated Entities during the year ended December 31, 2023. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2023.

For the year ended December 31, 2023, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2023, we had not encountered interference or encumbrance from any PRC government authorities in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries amounted to RMB6,530 million for the year ended December 31, 2023, representing a decrease by 8.0% from RMB7,094 million for the year ended December 31, 2022. For the year ended December 31, 2023, the revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries accounted for approximately 93.1% of the revenue for the year of our Group.

REPORT OF DIRECTORS

Reasons for Adopting the Contractual Arrangements

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

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

REPORT OF DIRECTORS

Risks Relating to the Contractual Arrangements

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

- (a) Under PRC laws and regulations, the Company or the WFOEs, are not expressly required to share the losses of the Consolidated Affiliated Entities or provide financial support to the Consolidated Affiliated Entities. The Company's business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffer losses.
- (b) If the PRC government finds that the agreements that establish the structure for operating the businesses in China do not comply with the applicable PRC laws and regulations, or if there are regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.
- (c) Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Holdcos or their shareholder(s) may fail to perform their/its obligations under our Contractual Arrangements.
- (d) The ultimate shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.
- (e) We may lose the ability to use and enjoy assets held by our PRC Holdcos that are material to our business operations if our PRC Holdcos declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- (f) If we exercise the option to acquire equity ownership and assets of our PRC Holdcos, the ownership or asset transfer may subject us to certain limitations and substantial costs.
- (g) The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of the investment of our Shareholders.
- (h) The Company does not have any insurance which covers the risks relating to our Contractual Arrangements and the transactions contemplated thereunder.

Further details of these risks are set out in the section headed "Risk Factors – Risks relating to Our Contractual Arrangements" on pages 60 to 66 of the Prospectus and pages 18 to 22 of the announcement of the Company dated March 22, 2022.

REPORT OF DIRECTORS

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year; and
- (c) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing as three of the parties to the Contractual Arrangements, namely Litong, Linzhi Tencent and Shiji Kaixuan, are connected persons. Litong, Linzhi Tencent and Shiji Kaixuan are accounted as subsidiaries of Tencent, and are therefore associates of Tencent.

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

REPORT OF DIRECTORS

- (a) no change without independent non-executive Directors' approval;
- (b) no change without independent Shareholders' approval;
- (c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;
- (d) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and
- (e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

For further details of the waivers granted by the Stock Exchange, please refer to the Prospectus and the announcements of the Company dated September 24, 2018 and March 22, 2022.

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

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

- (a) the transactions carried out during the year ended December 31, 2023 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- (b) no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group; and
- (c) the terms of any new contracts that had been entered into, renewed and/or reproduced between our Group and the Consolidated Affiliated Entities during the year ended December 31, 2023 are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

Our Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2023 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group.

REPORT OF DIRECTORS

Donations

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB350,000.

Permitted Indemnity Provision

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

Subsequent Events after the Reporting Period

The subsequent events after the Reporting Period are disclosed in Note 41 to the consolidated financial statements.

Audit Committee

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

Corporate Governance

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 72 to 99 of this annual report.

Environment and Compliance with Laws

The Group recognizes the importance of environmental protection and conservation of resources for our sustainable development. In line with this concept, the Group complies with all applicable environmental protection laws and regulations including the Environmental Protection Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China. During the year ended December 31, 2023, as far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

Sufficiency of Public Float

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

REPORT OF DIRECTORS

Closure of the Register of Members

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

Professional Tax Advice Recommended

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

Auditor

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

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

Sincerely,

James Gordon Mitchell

Chairman of the Board and non-executive Director

Hong Kong, March 18, 2024

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2023 (the “Relevant Period”).

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

Corporate Governance Practices

The Company has adopted the CG Code as set out in Appendix C1 to the Listing Rules as its own code of corporate governance. The Board believes that throughout the year ended December 31, 2023, the Company complied with the applicable code provisions set out in the CG Code. The Company keeps on promoting good investor relations and enhancing communication with the Shareholders and potential investors to enable the Shareholders’ evaluation of the Company’s application of CG Code. See “Communication with Shareholders” and “Shareholders’ Rights” for details.

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

Model Code For Securities Transactions

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules regarding directors’ securities transactions. The Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company’s securities. The Company has made specific enquiries with the Directors and the Directors have confirmed they have complied with the Model Code for the Relevant Period.

The Board

To serve the best interests of the Company and its shareholders, the Board is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major investments, capital market operations, as well as mergers and acquisitions. The Board is also responsible for monitoring risk management and internal control, reviewing environmental, social and governance strategies, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

In order to achieve a sustainable and balanced development, the Company views Board diversity as a key element for supporting its strategic goals and maintaining sustainable development. The Board membership maintains wide representation. Members of the Board consist of outstanding individuals from different professions. Currently, the Board comprises eight Directors, including two executive Directors, three non-executive Directors and three independent non-executive Directors. The biographies of the Directors are set out under the section headed “Directors and Senior Management” of this annual report. The Company believes that the Board currently comprises experts from diversified professions such as telecommunications, information industry, technology, banking, finance, investment and management, and is diversified in terms of gender, age, duration of service, educational background, professional experience, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

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

CORPORATE GOVERNANCE REPORT

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

The below sets out the analysis of the composition of the Board as of the date of this report:

Designation	 2 Executive Directors	 3 Non-executive Directors	 3 Independent Non-executive Directors
Gender	 6 Male	 2 Female	
Age Group	 3 40-49	 3 50-59	 2 >60
Length of Services (Years)	2 1-2	1 3-4	5 5 or above

CORPORATE GOVERNANCE REPORT

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

A list of directors and their respective biographies which include their positions held at the Company and certain subsidiaries are set out on pages 23 to 29 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

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

Directors' Liability Insurance and Indemnity

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

Responsibility of the Board

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

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

Board Activity

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

CORPORATE GOVERNANCE REPORT

The Board held four Board meetings and passed five written resolutions in 2023. The attendance of each director at Board, committee meetings and annual general meeting, whether in person or by means of electronic communication, is detailed in the table below:

Name of director	Attendance/No. of Board, Committee Meetings and Annual General Meeting						
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Strategy and Investment Committee	Annual General Meeting	Extraordinary General Meeting
Executive directors							
Mr. Hou Xiaonan	4/4	N/A	N/A	N/A	1/1	1/1	1/1
Mr. Huang Yan <i>(appointed on June 30, 2023)</i>	2/2	N/A	N/A	N/A	N/A	N/A	1/1
Mr. Cheng Wu <i>(resigned with effect from May 10, 2023)</i>	1/1	N/A	N/A	N/A	N/A	N/A	N/A
Non-executive directors							
Mr. James Gordon Mitchell	4/4	N/A	2/2	3/3	1/1	1/1	1/1
Mr. Cao Huayi	4/4	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Xie Qinghua <i>(appointed on May 22, 2023)</i>	3/3	1/1	N/A	N/A	N/A	N/A	1/1
Mr. Cheng Yun Ming Matthew <i>(retired on May 22, 2023)</i>	1/1	1/1	N/A	N/A	N/A	1/1	N/A
Mr. Zou Zhengyu* <i>(resigned on June 30, 2023)</i>	0/2	N/A	N/A	N/A	N/A	0/1	N/A
Independent non-executive directors							
Ms. Yu Chor Woon Carol	4/4	2/2	2/2	3/3	N/A	1/1	1/1
Ms. Leung Sau Ting Miranda	4/4	2/2	N/A	3/3	N/A	1/1	1/1
Mr. Liu Junmin	4/4	N/A	2/2	N/A	N/A	1/1	1/1

* Attendance at one board meeting by an alternate director should not be counted as attendance by the director.

CORPORATE GOVERNANCE REPORT

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

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

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

Induction and Continuous Professional Development

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

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

CORPORATE GOVERNANCE REPORT

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

Name of Directors	Nature of Continuous Professional Development Programmes
<i>Executive Directors</i>	
Mr. Hou Xiaonan	A, B and C
Mr. Huang Yan	A, B and C
<i>Non-Executive Directors</i>	
Mr. James Gordon Mitchell	A, B and C
Mr. Cao Huayi	C
Mr. Xie Qinghua	C
<i>Independent Non-Executive Directors</i>	
Ms. Yu Chor Woon Carol	C
Ms. Leung Sau Ting Miranda	C
Mr. Liu Junmin	C

Notes:

- A: Attending seminars and/or meetings and/or forums and/or briefings
- B: Giving talks in the seminars and/or meetings and/or forums
- C: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

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

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

Delegation by the Board

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

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

Board Independence

The Company recognizes that Board independence is key to good corporate governance. As part of the established governance framework, the Group has in place effective mechanisms that underpin a strong independent Board and that independent views and input from Directors are conveyed to the Board. The governance framework and mechanisms are kept under regular review to align with international best practice, ensuring their effectiveness.

The current composition of the Board (comprising one third independent non-executive Directors) and the Audit Committee (majority of the members of which are independent non-executive Directors) fulfills the independence requirements under the Listing Rules. The Audit Committee and Remuneration Committee are both chaired by independent non-executive Director. The Company has a vigorous selection, nomination and appointment/re-appointment process for Directors (including independent non-executive Directors), see "Nomination Policy" on pages 85 of this report. Fees to independent non-executive Directors are in the form of cash payment with additional fees payable to reflect membership or chairmanship of Board committees. None of these Directors receives remuneration based on performance of the Group. The remuneration of independent non-executive Directors are also subject to a regular review mechanism to maintain competitiveness and commensurate with their responsibilities and workload.

To facilitate attendance and participation at Board and other Board committee meetings, the Company plans meeting schedules for the year well in advance, with remote facilities for attendance.

CORPORATE GOVERNANCE REPORT

The chairman of the Board shall at least annually hold meetings with the independent non-executive Directors without the presence of other Directors to discuss major issues and any concerns. External independent professional advice is also available to all Directors (including independent non-executive Directors) whenever deemed necessary. The Board process, ranging from agenda setting, provision of information and focus on constructive debates and discussions, facilitates effective and active participation by all independent non-executive Directors.

The independent non-executive Directors have historically and consistently demonstrated strong commitment, and the ability to devote sufficient time to discharge their responsibilities at the Board. Their commitment is also subject to self-confirmation each year. The Nomination Committee is mandated to assess annually the independence of all independent non-executive Directors by reference to the independence criteria as set out in the Listing Rules to ensure that they can continually exercise independent judgement.

Corporate Governance Function

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

1. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to formulate, review and monitor the code of conduct and compliance manual applicable to employees and Directors;
4. to formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;
5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report;
6. to review and ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting;
7. to oversee management in the design, implementation and monitoring of the risk management (including ESG risks) and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems;
8. to review the nature and extent of the Company's significant risks (including ESG risks), and to respond the changes in its business and the external environment;
9. to listen to the Company's stakeholders in a number of different ways, which the Board sets out in more details within the ESG review and use the information provided by the Company's stakeholders to identify the issues that are most important to them – and consequently also matter to the Company's business; and
10. to review and monitor the Company's compliance with the Company's anti-corruption and whistle-blowing policy.

CORPORATE GOVERNANCE REPORT

Board's Role in Culture and Company's Purpose

The Board's Role in Culture and the Company's Purpose

1. With online literature as its cornerstone and IP development as the growth accelerator, China Literature has established an open and inclusive ecosystem with its business partners. The Company incubates original IPs from its online literature platform, which are subsequently adapted to a range of digital entertainment mediums, including comics, animation, film, TV series, web series and games. These digital offerings strive to integrate with users' real life offline, fulfilling their comprehensive spiritual needs and supporting the Company's mission of creating good stories that will live forever.
2. The Board is responsible for nurturing the Company's culture, which aligns with the purpose, values and strategy of the Company, and promoting it across different business segments and to all employees, and embedding the same in the business decisions and operations. The Company's culture is a collection of belief, mindsets, norms, behaviours, attitudes and social patterns which are developed over time, and maintained and enhanced through the collective efforts of the management and all employees.

Strategy

1. In line with the purpose and having equipped with the core values, the Company's strategy in the business development and management could be summarized as achieving long-term, steady and sustainable growth, focusing on investments with stable recurring income while having due considerations from environment, social and governance aspects.
2. Our strategy underpins the direction towards achievement of our purpose.

Alignment of Values, Strategy and Culture

1. The culture of the Company has been developed over time and underpinned the mission, vision, strategy, purpose and core values of the Company which are inter-related to each other. The core values of the Company are important constituents of our culture, which reflect the behavioral standards and social attitudes being practiced and expected of the management and all employees.
2. Among the Company's core values, the Company has a resolute commitment to ethics and integrity and our Directors instill integrity into all aspects of our businesses. Our Directors, management and employees are all required to act in a lawful, ethical and responsible manner, which is an integral part of the Company's culture as reflected in our core values. In promoting and maintaining the same, the required standards and norms are explicitly set out in various policies such as the Red Line Policy and Anti-fraud and Whistleblowing Policy. Trainings are conducted from time to time to reinforce across-the-board the required standards and norms in respect of ethics and integrity.
3. The Company has been monitoring the effectiveness of the promotion of culture as well as adherence to core values on a continuous basis, the findings of which, including Human Resources data, health and safety, environmental performance, ESG compliance, etc., are available in the ESG Report.
4. The appraisal system has included the elements of the core values and remuneration decisions are made in line with the remuneration policy and the purpose, core values, strategy and culture of the Company. We are devoted to building a culture which gives our employees the chance to learn and grow, and be a great employer which attracts and retains a diverse-background and talented mix of colleagues who contribute to the sustainable development of the Company.

CORPORATE GOVERNANCE REPORT

Board Committees

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

Audit Committee

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

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

The Audit Committee's major work during the year 2023 includes:

1. to review the 2022 annual report, the Environmental, Social and Governance Report and annual results announcement;
2. to review the 2023 interim report and interim results announcement;
3. to review compliance with the CG Code, the Listing Rules and relevant laws;
4. to review the relationship with the Auditor by reference to the work performed by the Auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the Auditor;
5. to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the Auditor before submission to the Board; and
6. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, and the effectiveness and implementation of the internal audit function, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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

CORPORATE GOVERNANCE REPORT

Code provision D3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision D3.3(e)(i) of the CG Code during the Relevant Period.

Terms of Reference of the Audit Committee was revised on August 15, 2022 according to the revision of the CG Code which took into effect from January 1, 2022.

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

Nomination Committee

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

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

The Nomination Committee’s major work during the year 2023 includes:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of independent non-executive Directors;
4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive; and
5. to review the Board diversity policy.

CORPORATE GOVERNANCE REPORT

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

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

Board Diversity Policy

The Board has adopted a Board Diversity Policy in relation to the nomination and appointment of new Directors, which provides that the selection of Board candidates shall be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience, with reference to the Company’s business model and specific needs. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will from time to time discuss and agree on the measurable objective for achieving diversity of the Board. For the purpose of implementation of the Board Diversity Policy, the following measurable objectives:

1. at least one third of the Directors shall be independent non-executive Directors;
2. at least one Director is female; and
3. at least one Director shall have obtained accounting or other professional qualifications.

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

CORPORATE GOVERNANCE REPORT

Diversity across Workforce

Although the Company is paving the way to facilitate gender balance across the workforce (including senior management), it does not intend to fix any gender diversity quota or set a short-term objective thereon given that the business nature as well as the geographical location of the Company do not lead to any favouritism on engaging employees of a particular gender. Gender diversity of the workforce is indeed not a relevant issue to the Company. As provided in the Company's employment policy, staff recruitment is mainly based on the needs of the Company and the principles laid down therein, such as equal opportunities and "selection on capability". As of December 31, 2023, the Company consisted of 786 male employees and 918 female employees, representing approximately 46.1% and 53.9% of the total workforce, respectively.

Nomination Policy

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

Remuneration Committee

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

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

The Remuneration Committee's major work during the year 2023 includes:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. To assess and make recommendations to the Board on the performance of executive Directors;
3. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board from time to time;
4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
5. to make recommendations to the Board about the grant of RSU and Options to the directors and senior management;
6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
9. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
10. to review and approve material matters relating to share schemes under Chapter 17 of the Listing Rules.

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

In conducting its work in relation to reviewing and approving material matters relating to share schemes under Chapter 17 of the Listing Rules for the grant of RSUs and Options during the report period, the Remuneration Committee took into account the ability of the grantees to contribute to the overall operations, development and long-term growth of the Group, the vesting schedule, and the work performance and potential of the grantees. For further details of the views of the Remuneration Committee, please refer to the announcements of the Company dated May 23, 2023 and August 21, 2023.

CORPORATE GOVERNANCE REPORT

Strategy and Investment Committee

The Strategy and Investment Committee comprises two members, including one executive Director namely Mr. Hou Xiaonan (Chairman) and one non-executive Director namely Mr. James Gordon Mitchell.

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

Remuneration of Directors and Senior Management

Please refer to Note 9 to the consolidated financial statements for details of remuneration of members of the Board for the year ended December 31, 2023.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on pages 23 to 29 of this annual report, for the year ended December 31, 2023 are set out below:

Remuneration band (RMB)	Number of individual
0	2
1-5,000,000	3
>5,000,000	3

Directors’ Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2023 which give a true and fair view of the affairs of the Company and the Group and of the Group’s results and cash flows.

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

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

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor’s Report on page 100 to 109 of this annual report.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

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

The Company has established risk management system and processes. It has been continuously improving its risk management system and enhancing its risk management abilities as well as strengthening its risk culture, to ensure the healthy and sustainable development of the Company.

The Board acknowledges that it is their responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates its responsibilities to the Audit Committee to review the establishment and practices of management with respect to risk management and internal control systems formally on a half-yearly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. Members of the Audit Committee have extensive experience and knowledge in financial management and risk management. They debrief information related to risk management requirements and best practices in regular Audit Committee Meetings. The Board is also responsible for overseeing the key risks of the Company, including determining the risk appetite of the Company, and proactively considering, analysing and formulating strategies to manage company's significant risks. The risks mentioned above also include, but are not limited to, significant risks related to the environment, social and governance aspects of the Company.

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

First Line of Defense – Operation and Management

Our First Line of Defense is mainly comprised of business and functional departments of the Group. It is responsible for the day-to-day operation and management. They are responsible for designing and implementing controls to address the risks.

Second Line of Defense – Risk Management

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

CORPORATE GOVERNANCE REPORT

Third Line of Defense – Independent Assurance

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

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

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

The Board and management have always placed importance on the maintenance and establishment of the Company's risk management and internal control systems. In 2023, the Company has consistently improved the risk management and internal control systems, and has also continuously increased the awareness of risk management among the employees. The internal control team continues to delve into the front line of the business and proactively support the business operations in managing the risks and enhancing internal controls, in a more comprehensive and timely manner, to ensure the healthy development of business. The Internal Audit Department continues to carry out independent audit over various key businesses and management areas, to identify risks and provide effective and timely evaluations more effectively. The internal audit team of the Risk Control and Internal Audit Department of the Group (including internal audit and anti-corruption functions) further advocates the value of integrity among the employees, increases the expectations placed on managers, and actively follows up and investigated the alleged fraudulent activities. The connection and interaction among the three lines of defense have been further enhanced to provide more effective support to the Company's development.

CORPORATE GOVERNANCE REPORT

Risk Culture

The Company commits to establishing and improving the internal control environment, strengthening employees' risk management awareness, and continuously enhancing the company's risk management capabilities.

The Company provides all employees with regular training on risk management and internal monitoring through a variety of formats, including face-to-face training, online courses, and online consultation hotlines. Training topics include key risk analysis and internal monitoring activities. Furthermore, risk management courses are made a mandatory part of the curriculum for new employees, thereby comprehensively enhancing employee's risk awareness.

Risk Management

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

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

As the Company's business scale, scope and complexity have evolved, so does its external environment, management considers that six significant risks disclosed in 2022 still exist through the risk management process detailed above, including "Market Competition and Innovation Risk", "Macroeconomic risk", "Regulatory and Compliance Risk", "Crisis Management, Public relations and Reputation Risk", "Intellectual Property Protection Risk", "Information Security Risk". The "Market Competition and Innovation Risk", "Macroeconomic risk" and "Crisis Management, Public Relations and Reputation Risk" have increased to a certain extent while the other risks remain at a similar risk level as last year.

The Audit Committee assists the Board in supervising the overall risk status of the Company and evaluating the change in the nature and severity of the Company's major risks. The Audit Committee considers that the management of the Company has taken appropriate measures to address and manage the key risks which they are responsible for at a level acceptable to the Board. Below is a summary of the significant risks of the Company along with the applicable response strategies. With the growth of business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

CORPORATE GOVERNANCE REPORT

Market Competition and Innovation Risk

The Company faces competition in every aspect of our business, and particularly from other companies that provide online platform services for literary creation, consumption and distribution. We compete primarily with other online literature websites and mobile apps in China, with internet companies which offer internet media services, with social network service providers, with content providers that focus exclusively on a specific genre of content also featured by us, including our popular media accounts and physical book publishing companies, with movie and television companies, and with AI-related technology companies. Moreover, with the deep intervention of We media in the online literature industry, as well as user's increasing appetite for innovation in products and services, attracting new users and maintaining our market share also pose major challenges to the Company. The Company also use the advantages in content and platform to promote the incubation of high-quality literary IPs. Challenges for the Company ahead are building IP ecosystem to enhance the value of IP and reconstructing various formats of IP contents.

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

CORPORATE GOVERNANCE REPORT

Macroeconomic risk

The Company's revenue from certain businesses is closely related to the macro-economic circumstances and the overall consumption environment in China. The slowdown in macroeconomic growth may reduce individual users' ability to pay and willingness to consume, it may also erode corporate customers' operation and profits and lead to a reduction in the resources they invest in market and business development, both of which may in turn adversely affect certain revenue streams of the Company. The uncertainty of global geopolitics may still negatively impact on the Company's markets and business cooperation, which may in turn affect and weaken the Company's competitiveness and potential for business development.

The Company adjusts its business strategy scientifically, flexibly and reasonably in accordance with the change of macroeconomic environment, responding to the uncertainties brought about by the macroeconomic environment while continuing to seek opportunities for business development. Based on online reading business, the Company also emphasizes IP incubation and development, achieves sustainable business development through the improvement of user experience as well as building longer-term and stable relationships with existing customers. In an unfavourable macroeconomic environment, including economic growth slowdown and uncertain international relations, the Company will continue to create value for its customers and fulfil its social responsibility with the mission of "creating good stories that will live forever".

Regulatory and Compliance Risk

As the Company continuously expands its businesses both domestically and internationally, the Company must keep up and comply with the new applicable laws and regulations in different countries and jurisdictions, including but not limited to laws and regulations relating to privacy and data protection, intellectual property, artificial intelligence management, consumer protection, labour protection, antitrust, anti-illegitimate competition, communication and network, literary content creation, movie, television, animation and comics production, games, advertising, foreign investment, international trade and etc. In addition, the international development may lead to the change of global policies and regulations, and impact the development of various industries across different regions.

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

CORPORATE GOVERNANCE REPORT

Crisis Management, Public relations and Reputation Risk

Online literature business and the movie and TV industry are highly dependent on market recognition and reputation of writers and artists. The company's animation, comic, and gaming businesses also have a wide user base. With the increasing complex business forms and business development both internally and abroad. The product reputation and brand name of the Company is damaged for any reason or if the Company is unable to respond to negative information effectively (for example, the image and reputation of writers, artists or cooperative partners are adversely affected) and fails to promptly convey comprehensive and truthful information to users and the public to prevent the issue from escalating or a crisis from worsening, the reputation of products and the brand image of the Company may be harmed, and in turn, the business and financial conditions and operating results of the Company will be affected.

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

CORPORATE GOVERNANCE REPORT

Intellectual Property Protection Risk

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

The Company has zero tolerance for piracy and it continuously formulates and optimizes control measures, for example, “Peanut action”, to reduce the risk of piracy through anti-piracy technology, including but not limited to network monitoring, platform technology protection, content protection, identification and blocking of risk accounts, specification of cooperation channels, conversion of users and other full chain capabilities. Besides, the Company also provides an interactive platform for writers and users and increase content distribution channel. In addition, the Company has set up a number of professional departments and teams which are able to identify cases of infringement and collect evidence with other business departments of the Company in a timely manner for commencing litigation in the relevant jurisdictions to claim for the losses incurred and impose punishment on unauthorized third parties. The Company has strengthened the cooperation with public security organ to severely crack down on pirated App. In addition, the Company has further strengthened the cooperation with National Copyright Administration and Copyright Society of China to promote the protection of digital rights.

Information Security Risk

All countries and jurisdictions continue to heighten the regulatory enforcement over data security of personal users and enterprise customers. The security of user and customer data is the top priority of the Company. The Company continues to pay attention to regulatory requirements for privacy and data protection in various jurisdictions and is fully aware that any loss or leakage of sensitive information could have a negative impact on affected users and customers, which could expose the company to significant legal liability and reputational risk.

The Company strongly believes that protecting user data and privacy is the key prerequisite for delivering secured and high-quality products and user experience. As such, the Company is committed to protecting data privacy and security and strives to provide the highest level of protection on such information and data. In this regard, the Company strictly complies with relevant laws and regulations, and has formulated policies and control measures to protect user data. Information security is secured through effective management systems, encryption, data access authority, and the establishment of rigorous management processes, and continuously improving the business continuity and disaster recovery management. The company also regularly conducts self-inspections in the field of information security and continuously optimizes the management of information security to effectively safeguard the information security of users and customers. In addition, the Company performs review periodically and engages independent specialists to review the Company’s data protection practices and provides training programs to employees to enhance their awareness of information security, so as to continuously improve information security risk.

CORPORATE GOVERNANCE REPORT

Internal Control

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

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

Management Self-assessment

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

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

CORPORATE GOVERNANCE REPORT

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with various business and functional management teams, internal audit team, legal, personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Board is of the view that throughout the year ended December 31, 2023, the risk management and internal control systems of the Company are effective and adequate.

In addition, the Board believes that the Company's accounting, internal audit, and financial reporting functions, as well as those relating to the Company's ESG performance and reporting have been

performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

Framework for Disclosure of Inside Information

The Company has in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the shareholders and stakeholders to assess the latest position of the Group.

Auditor's Remuneration

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended December 31, 2023 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit and audit related services	10,946
Non-audit services*	870
Total	11,816

Note:

* The amount of non-audit services mainly comprises risk management and tax advisory service.

CORPORATE GOVERNANCE REPORT

Joint Company Secretaries

Ms. Xu Lan (“Ms. Xu”) and Mr. Au Wai Keung (“Mr. Au”) (appointed on May 31, 2023) are the joint company secretaries of the Company. All directors have access to the advice and services of the joint company secretaries on board procedures and corporate governance matters as and when required. Ms. Xu is an employee of the Company and Mr. Au is an external service provider. They both report to the chairman of the Board and chief executive officer of the Company. Ms. Xu works closely with Mr. Au in discharging their duties and responsibilities as joint company secretaries of the Company.

For the year ended December 31, 2023, Ms. Xu and Mr. Au have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Mr. Au is an external service provider and his primary contact person at the Company is Ms. Xu.

Communication with Shareholders and Investor Relations

The Board recognizes the importance of communication with the Company’s shareholders. A “Shareholders’ Communication Policy”, which is published on the Company’s website at <http://ir.yuewen.com/>, was adopted by the Board for ensuring effective and transparent communication between the Company and its shareholders. The Company maintains a website of the Company, where up-to-date information on the Company’s business operations and developments, financial information, corporate governance practices and other information are available for public access.

According to the Shareholders’ Communication Policy:

- (a) Corporate communications which contain regulatory disclosures and notices of the Company, are published in accordance with the legal and regulatory requirement applicable to the Company. Corporate communications and other general information concerning the Company and its businesses are posted on the corporate website (<http://ir.yuewen.com/>) and/or distributed to the media as soon as practicable.
- (b) Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and, on poll, vote at meetings for and on their behalf if they are unable to attend. The chairman of general meetings will allow reasonable time for shareholders to raise questions and comments.
- (c) The Company’s investor relations team, comprising directors and members of senior management, regularly arranges or participates in one-on-one meetings, roadshows, conferences, forums, site visits and briefing sessions to maintain an open dialogue with financial analysts and institutional investors in Hong Kong and overseas.
- (d) For the purpose of enhancing effective communications, all shareholders are encouraged to send their enquiries and views on various matters affecting the Company by email to the Investor Relations Department of the Company.

CORPORATE GOVERNANCE REPORT

In consideration of the following measures, the Board concluded that the Shareholders' Communication Policy was effectively implemented throughout the year:

- (a) Annual and interim reports, announcements and circulars are published on a timely basis in accordance with the Listing Rules.
- (b) On-going engagement is maintained with institutional investors, analysts and investment managers through various communications.
- (c) Press releases and presentation materials posted on the Company's website facilitate shareholders and other stakeholders' understanding and appraisal of the Group's latest developments in portfolio optimization.
- (d) The Company announced the launch of a share buy-back plan in December 2023, signalling the Company's intention to enhance shareholder value.
- (e) Shareholders' enquiries, either received by telephone or by email, are properly attended.

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

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

Shareholders' Rights

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

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

Convening of Extraordinary General Meeting and Putting Forward Proposals

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

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

CORPORATE GOVERNANCE REPORT

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at N3 Lujiazui Binjiang Center, No. 5169 Binjiang Avenue, Pudong New Area, Shanghai, People's Republic of China (email address: ir@yuewen.com).

Memorandum and Articles of Association

During the year ended December 31, 2023, there were no significant changes in the constitutional documents of the Company.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of China Literature Limited

(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Literature Limited (the “Company”) and its subsidiaries (the “Group”), which are set out on pages 110 to 226, comprise:

- the consolidated statement of financial position as at December 31, 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Impairment assessment of goodwill

Refer to Notes 2.7, 2.9, 5(a) and 18 to the consolidated financial statements.

As at December 31, 2023, the Group had significant amounts of goodwill amounting to RMB6,632.8 million, which were allocated to two cash-generating units ("CGUs"), namely (i) Online Business and (ii) Acquired TV and Film Business.

The Group has engaged independent external valuers to assist management in performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on goodwill was recognised for the year ended December 31, 2023.

Value-in-use ("VIU") calculations were used to determine the appropriate recoverable amounts of the CGUs. We focused on this area due to the magnitude of the carrying amounts of the goodwill as at December 31, 2023, and the fact that significant judgements were required by management when selecting key assumptions to be adopted in the valuation models.

How our audit addressed the Key Audit Matter

We assessed the competency, capability and objectivity of the independent external valuers engaged by the Group for performing the goodwill impairment assessments by evaluating their qualifications, relevant experience and relationship with the Group.

We assessed the appropriateness of using VIU calculations as valuation model for the impairment assessments of goodwill. The VIU calculations use cash flow projections based on business plans approved by management. We assessed the key assumptions adopted in the VIU calculations including annual growth rates and gross margin by comparing these assumptions against the historical results of the CGUs, the approved budgets of the CGUs and the Group's business plan. We assessed certain key valuation assumptions including discount rate with the involvement of our internal valuation experts. We also evaluated management's sensitivity analysis on the key assumptions to which the valuation models are the most sensitive.

We independently tested the accuracy of mathematical calculation applied in the valuation models.

Based on the above procedures performed, we found management's impairment assessments of goodwill were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Fair value measurement of financial assets at fair value through profit or loss - investments in redeemable shares

Refer to Notes 2.10, 4.3, 5(c) and 21 to the consolidated financial statements.

As at December 31, 2023, the Group had financial assets at fair value through profit or loss, of which investments in redeemable shares of approximately RMB773.6 million were measured based on significant unobservable inputs and classified as "Level 3 financial instruments".

The Group has engaged an independent external valuer to assist management in performing the fair value valuation of investments in redeemable shares as at December 31, 2023.

We focused on this area due to the high degree of judgement required in determining the respective fair values of investments in redeemable shares, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology (e.g. market approach) and the application of appropriate assumptions (e.g. IPO probability of the investees) in the valuation.

How our audit addressed the Key Audit Matter

We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of investments in redeemable shares by evaluating its qualifications, relevant experience and relationship with the Group.

We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used. We tested the valuation of investments in redeemable shares as at December 31, 2023 by evaluating the underlying assumptions including IPO probability of the investees, etc., based on industry knowledge as well as the recent equity transactions completed by the investees.

We independently tested the accuracy of mathematical calculation of the valuation models.

Based on the above procedures performed, we found the valuation methodology of the investments in redeemable shares was acceptable and the assumptions used by management were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Fair value measurement of financial liabilities at fair value through profit or loss - contingent consideration

Refer to Notes 4.3, 5(c), 10 and 32 to the consolidated financial statements

As at December 31, 2023, the financial liability at fair value through profit or loss in relation to the contingent consideration payable for acquiring New Classics Media Holdings Limited (referred to as the "New Classics Media") was amounting to approximately RMB503.0 million. During the year ended December 31, 2023, the net fair value change amounting to RMB15.4 million was charged to "other gains/(losses), net" in the consolidated statement of comprehensive income.

The Group has engaged an independent external valuer to assist management in performing the fair value valuation of contingent consideration payable as at December 31, 2023.

We focused on this area due to the high degree of judgement required in determining the fair value of the contingent consideration using Monte Carlo Simulation Method. This valuation method required the use of certain key assumptions including growth rate and volatility of the net profit of New Classics Media.

How our audit addressed the Key Audit Matter

We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of contingent consideration payable by evaluating its qualifications, relevant experience and relationship with the Group.

We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used (e.g. growth rate and volatility of the net profit of New Classics Media) by comparing these assumptions against the historical results, the approved budget and the business plan of New Classics Media.

We also independently assessed the reasonableness of the valuation result by comparing it with the result calculated using on our in-house valuation model.

Based on the above procedures performed, we found the valuation methodology of the contingent consideration was acceptable and the assumptions used by management were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Impairment assessment of television series and film rights and adaptation rights and scripts

Refer to Notes 2.8, 5(a), 25 and 26 to the consolidated financial statements.

As at December 31, 2023, the Group held significant amounts of television series and film rights and adaptation rights and scripts (recorded in "inventories" of consolidated statement of financial position) amounting to RMB995.1 million and RMB701.9 million, respectively. Included in television series and film rights, the balances of products produced in progress and completed were approximately RMB951.5 million and RMB43.5 million, respectively. Impairment provisions of RMB86.4 million and RMB66.4 million in respect of television series and film rights and adaptation rights and scripts had been recognised during the year ended December 31, 2023 against their respective carrying amounts.

We focused on this area due to the fact that management applied significant judgements in assessing the impairment of these television series and film rights and adaptation rights and scripts. In making such assessment, management considered all possible factors that may affect the future production and distribution plans of television series and film rights and adaptation rights and scripts, the available selling price or pre-order price of television series and film rights, discount rate and the current market environment, and exercised judgement in developing its expectation for the future cash flows from these television series and film rights and adaptation rights and scripts.

How our audit addressed the Key Audit Matter

We assessed whether the accounting policies of the Group in respect of impairment of television series and film rights and adaptation rights and scripts were reasonable by comparing with relevant accounting standards and benchmarking with industry practice.

We tested, on a sample basis, management's recoverability assessment of the television series and film rights and adaptation rights and scripts, based on the significance of the balance of each television series and film right and each adaptation right and script.

For each selected sample of adaptation rights and scripts and television series and film rights under production, we (i) examined the related agreements of the purchased adaptation rights and scripts to check their stipulated period of validity; (ii) discussed with management to understand their future production and distribution plans; and (iii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment by comparing the estimated selling price and related costs of the television series and film rights to the available price of the television series, film box office receipts, production and distribution costs of similar television series and films released and the pre-order price offered by the customers if available.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter**How our audit addressed the Key Audit Matter**

For each selected sample of television series completed, we examined the license agreements entered into by the Group with respective television stations and online platforms to validate the estimated selling price of television series. For each selected sample of television series completed with no associated license agreements entered into, we compared the estimated selling price of these television series to the available price of similar television series. For each selected sample of film rights completed but yet to be released, we compared the estimated selling price of these film rights to film box office receipts of similar films released and actual box office receipts if available.

We also assessed the reasonableness of the discount rate used in the cash flow forecast for impairment assessment and tested the accuracy of mathematical calculation of the impairment assessment.

Based on the above procedures performed, we found the assumptions adopted and judgment applied by management in the impairment assessments of television series and film rights and adaptation rights and scripts were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wilson W.Y. Chow.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,
March 18, 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023

	Note	Year ended December 31,	
		2023 RMB'000	2022 RMB'000
Revenues	7	7,011,785	7,625,622
Cost of revenues	8	(3,640,322)	(3,595,519)
Gross profit		3,371,463	4,030,103
Interest income	12	166,316	160,893
Other gains/(losses), net	10	11,493	(207,077)
Selling and marketing expenses	8	(1,719,519)	(2,002,614)
General and administrative expenses	8	(1,161,035)	(1,238,177)
Net reversal of/(provision for) impairment losses on financial assets		40,591	(114,294)
Operating profit		709,309	628,834
Finance costs, net	11	(12,891)	(53,985)
Share of net profit of associates and joint ventures	19	204,979	198,971
Profit before income tax		901,397	773,820
Income tax expense	13	(97,850)	(166,192)
Profit for the year		803,547	607,628
Other comprehensive income:			
<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		(4,312)	(7,483)
Currency translation differences		66,421	54,773
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive (loss)/income of associates and joint ventures	19	(647)	4,656
Currency translation differences		(21,663)	62,861
Total comprehensive income for the year		843,346	722,435
Profit attributable to:			
– Equity holders of the Company		804,879	608,186
– Non-controlling interests		(1,332)	(558)
		803,547	607,628
Total comprehensive income attributable to:			
– Equity holders of the Company		844,644	722,794
– Non-controlling interests		(1,298)	(359)
		843,346	722,435
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	14(a)	0.80	0.60
– Diluted earnings per share	14(b)	0.79	0.59

The notes on pages 117 to 226 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

	Note	As of December 31,	
		2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	128,327	132,858
Right-of-use assets	17	207,675	183,141
Intangible assets	18	7,330,124	7,421,639
Investments in associates and joint ventures	19	924,683	1,008,754
Financial assets at fair value through profit or loss	21	856,047	862,241
Financial asset at fair value through other comprehensive income	22	4,071	8,009
Term deposits	28	1,829,000	–
Deferred income tax assets	23	394,121	312,283
Prepayments, deposits and other assets	24	291,608	329,641
		11,965,656	10,258,566
Current assets			
Inventories	25	743,660	760,271
Television series and film rights	26	995,078	940,412
Financial assets at fair value through profit or loss	21	2,442,719	119,329
Trade and notes receivables	27	1,988,200	2,048,930
Prepayments, deposits and other assets	24	1,212,607	1,212,544
Term deposits	28	1,038,739	1,848,660
Cash and cash equivalents	28	2,801,796	5,545,766
		11,222,799	12,475,912
Total assets		23,188,455	22,734,478
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	33	650	644
Shares held for RSU schemes	33	(16,647)	(18,766)
Share premium	33	16,312,648	16,223,277
Other reserves	34	2,173,341	1,955,121
Retained earnings/(accumulated losses)		554,953	(202,938)
		19,024,945	17,957,338
Non-controlling interests		(538)	(2,616)
Total equity		19,024,407	17,954,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

	Note	As of December 31,	
		2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	17	153,182	134,595
Long-term payables		1,151	4,691
Deferred income tax liabilities	23	134,520	139,563
Deferred revenue	7	24,231	26,538
Financial liabilities at fair value through profit or loss	32	247,830	490,613
		560,914	796,000
Current liabilities			
Borrowings	29	10,000	417,876
Lease liabilities	17	74,921	65,505
Trade payables	30	1,119,714	1,203,873
Other payables and accruals	31	997,662	1,019,435
Deferred revenue	7	879,250	619,125
Current income tax liabilities		266,444	275,780
Financial liabilities at fair value through profit or loss	32	255,143	382,162
		3,603,134	3,983,756
Total liabilities		4,164,048	4,779,756
Total equity and liabilities		23,188,455	22,734,478

The notes on pages 117 to 226 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 113 to 116 were approved by the Board of Directors on March 18, 2024 and were signed on its behalf:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU schemes RMB'000	Other reserves RMB'000	Retained	Sub- total RMB'000	Non- controlling interests RMB'000	Total RMB'000
					earnings/ (accumulated losses) RMB'000			
As of January 1, 2023	644	16,223,277	(18,766)	1,955,121	(202,938)	17,957,338	(2,616)	17,954,722
Comprehensive income								
Profit/(loss) for the year	-	-	-	-	804,879	804,879	(1,332)	803,547
Other comprehensive income								
- Share of other comprehensive loss of associates (Note 19)	-	-	-	(647)	-	(647)	-	(647)
- Currency translation differences	-	-	-	44,724	-	44,724	34	44,758
- Net loss from change in fair value of financial asset at fair value through other comprehensive income	-	-	-	(4,312)	-	(4,312)	-	(4,312)
Total comprehensive income/(loss) for the year	-	-	-	39,765	804,879	844,644	(1,298)	843,346
Transaction with owners								
Share-based compensation expenses (Note 35)	-	-	-	131,467	-	131,467	-	131,467
Transfer of vested RSUs	-	(27,453)	2,122	-	-	(25,331)	-	(25,331)
Issue of new share pursuant to RSU scheme (Note 33)	3	-	(3)	-	-	-	-	-
Issue of ordinary shares as consideration for a business combination (Note 32)	3	116,824	-	-	-	116,827	-	116,827
Profit appropriations to statutory reserves (Note 34)	-	-	-	46,988	(46,988)	-	-	-
Capital injection	-	-	-	-	-	-	3,376	3,376
Transactions with owners in their capacity for the year	6	89,371	2,119	178,455	(46,988)	222,963	3,376	226,339
As of December 31, 2023	650	16,312,648	(16,647)	2,173,341	554,953	19,024,945	(538)	19,024,407

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Attributable to equity holders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held		Accumulated losses RMB'000	Sub- total RMB'000	Non- controlling interests RMB'000	
			for RSU schemes RMB'000	Other reserves RMB'000				
As of January 1, 2022	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971
Comprehensive income								
Profit/(loss) for the year	-	-	-	-	608,186	608,186	(558)	607,628
Other comprehensive income								
- Share of other comprehensive loss of associates (Note 19)	-	-	-	(393)	-	(393)	-	(393)
- Transfer from share of other comprehensive loss to profit or loss upon disposal of an associate	-	-	-	5,049	-	5,049	-	5,049
- Currency translation differences	-	-	-	117,435	-	117,435	199	117,634
- Net loss from change in fair value of financial asset at fair value through other comprehensive income	-	-	-	(7,483)	-	(7,483)	-	(7,483)
Total comprehensive income/(loss) for the year	-	-	-	114,608	608,186	722,794	(359)	722,435
Transaction with owners								
Share-based compensation expenses (Note 35)	-	-	-	241,344	-	241,344	-	241,344
Transfer of vested RSUs	-	(27,605)	874	-	-	(26,731)	-	(26,731)
Repurchase and cancellation of shares (Note 33)	(7)	(211,825)	-	-	-	(211,832)	-	(211,832)
Repurchase of shares for RSU scheme	-	-	(2,189)	-	-	(2,189)	-	(2,189)
Issue of new share pursuant to RSU scheme (Note 33)	1	-	(1)	-	-	-	-	-
Issue of ordinary shares as consideration for a business combination (Note 32)	1	49,979	-	-	-	49,980	-	49,980
Profit appropriations to statutory reserves (Note 34)	-	-	-	146,551	(146,551)	-	-	-
Disposal of a non-wholly owned subsidiary (Note 10(b))	-	-	-	-	-	-	(1,357)	(1,357)
Capital injection	-	-	-	-	-	-	1,000	1,000
Acquisition of non-controlling interests (Note 34(b))	-	-	-	(2,483)	-	(2,483)	(2,416)	(4,899)
Transactions with owners in their capacity for the year	(5)	(189,451)	(1,316)	385,412	(146,551)	48,089	(2,773)	45,316
As of December 31, 2022	644	16,223,277	(18,766)	1,955,121	(202,938)	17,957,338	(2,616)	17,954,722

The notes on pages 117 to 226 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

	Note	Year ended December 31,	
		2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	37(a)	1,248,353	1,845,064
Income tax paid		(116,867)	(268,277)
Net cash flows generated from operating activities		1,131,486	1,576,787
Cash flows from investing activities			
Net cash outflow arising from disposal of a subsidiary	10(b)	–	(13,989)
Placements of term deposits with initial term of over three months		(4,488,639)	(3,722,955)
Receipts from maturity of term deposits with initial term of over three months		3,469,560	4,557,090
Interest received		147,554	153,756
Dividends received		204,833	157,892
Payments for investments in associates and joint ventures		(30,140)	(94,323)
Proceeds from disposals of investments in associates and a joint venture		92,730	75,488
Purchase of property, plant and equipment		(37,883)	(97,311)
Proceeds from disposals of property, plant and equipment		2,006	1,445
Purchase of intangible assets		(139,476)	(226,339)
Settlement of contingent consideration payable	32	(272,035)	(136,020)
Payments for acquisition of financial assets at fair value through profit or loss		(11,537,275)	(157,494)
Proceeds from settlements of financial assets at fair value through profit or loss		9,202,961	10,762
Loan lent to a related party		(6,000)	–
Proceeds from settlement of loan to a former subsidiary		6,766	20,100
Net cash flows (used in)/generated from investing activities		(3,385,038)	528,102

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

	Note	Year ended December 31,	
		2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		10,000	239,066
Repayments of borrowings		(422,802)	(1,031,842)
Proceeds from financial investors in television series and films		128	–
Repayments to financial investors in television series and films		(536)	(14,716)
Payments for acquisition of non-controlling interests	34(b)	–	(4,899)
Interests paid		(19,707)	(49,593)
Repurchase of shares for RSU scheme	33	–	(2,189)
Principal elements of lease payments		(81,278)	(70,359)
Proceeds from capital injection to a subsidiary by non-controlling interests shareholders		3,376	1,000
Payment for repurchase of ordinary shares		–	(211,832)
Net cash flows used in financing activities		(510,819)	(1,145,364)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		5,545,766	4,528,412
Exchange gains on cash and cash equivalents		20,401	57,829
Cash and cash equivalents at the end of the year		2,801,796	5,545,766

The notes on pages 117 to 226 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

1 General information

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

1 General information (Continued)

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

- the right to receive the cash received by Shanghai Yuewen from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Yuechao owns the valuable assets of the business through the assignment to Yuechao of the principal present and future intellectual property rights of Shanghai Yuewen without making any payment; and
- the power to control the management and financial and operating policies of Shanghai Yuewen.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies

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

2.1 Basis of preparation

2.1.1 Compliance with IFRS Accounting Standards

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

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.4 New standards and interpretations not yet adopted

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

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

2.1.5 Changes in accounting policies

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

In addition, Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules” were issued on 23 May 2023 which are effective upon issuance and require retrospective application. The Group applied the relief from deferred tax accounting for Pillar Two top-up taxes immediately upon the release of the amendments in May 2023, and also provided new disclosures about its exposure to these taxes, out of which the details are described in Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

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

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

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

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

2.2.2 Associates

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

2.2.3 Joint arrangements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.3 Joint arrangements (Continued)

Joint operations

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

Joint ventures

Interests in joint ventures are accounted for using the equity method (refer to Note 2.2.4 below), after initially being recognised at cost in the consolidated statement of financial position.

2.2.4 Equity method

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.5 Changes in ownership interests

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

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

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

2.3 Separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income or loss.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.6 Property, plant and equipment

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

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

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

Computer equipment	3 to 5 years
Furniture and fixtures	2 to 5 years
Motor vehicles	4 to 5 years
Building	30 to 40 years
Leasehold improvements	the shorter of their useful lives and the lease terms

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.7 Intangible assets

(a) Goodwill

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

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

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

(b) Acquired trademarks

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.7 Intangible assets (Continued)

(c) Copyrights of contents

Copyrights of contents purchased from writers are initially recognised and measured at costs. Copyrights of contents acquired in a business combination are recognised initially at fair value at the acquisition date. Copyrights of contents are amortised on a straight-line basis over their estimated useful economic lives of 18 months to 5 years.

(d) Other intangible assets acquired in a business combination

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

Writers' contracts	5 to 6 years
Software	1 to 10 years
Domain names	4 to 10 years
Non-compete agreements	4 years

(e) Other intangible assets

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

Software and domain names are initially recognised and measured at cost. They are amortised over their estimated useful lives (generally 1 to 10 years) using the straight-line method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.8 Television series and film rights

2.8.1 Television series and film rights under production

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

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

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

2.8.2 Television series and film rights completed

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

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

2.8.3 Impairment of television series and film rights

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.9 Impairment of non-financial assets

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

2.10 Investments and other financial assets

2.10.1 Classification

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.1 Classification (Continued)

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

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

2.10.2 Recognition and derecognition

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

2.10.3 Measurement

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

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

Debt instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.3 Measurement (Continued)

Debt instruments (Continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains/(losses), net". Interest income from these financial assets is recognised in finance income using the effective interest rate method. Foreign exchange gains and losses are presented "other gains/(losses), net" and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other gains/(losses), net" in the period in which it arises.

Equity instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.10 Investments and other financial assets (Continued)

2.10.4 Impairment

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

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 27 for further details.

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

2.11 Offsetting financial instruments

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

2.12 Inventories

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

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

Adaptation rights and scripts are initially recognised at costs, including all direct costs associated with the purchase of adaptation rights and payments on scripts, which are held for sale in the ordinary course of business. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Adaptation rights and scripts are transferred to “television series and film rights” for the purpose of its own production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.13 Trade and notes receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Trade payables

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

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

2.16 Borrowings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.16 Borrowings (Continued)

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

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. During the year ended December 31, 2023, no borrowing costs were capitalised by the Group (2022: nil).

2.17 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.17 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associates' and joint ventures' undistributed profit is not recognised.

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

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

(c) Uncertain tax positions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.18 Employee benefits

(a) Employee leave entitlements

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

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits of the Group

The Group operates a number of share-based compensation plans (including share option plan and restricted share unit ("RSU") schemes), under which the Group receives services from employees and other qualifying participants as consideration for equity instruments (including share options and RSUs) of the Group. The fair value of the employee services and other qualifying participants' services received in exchange for the grant of equity instruments is recognised as an expense over the vesting period, i.e. the period over which all of the specified vesting conditions are to be satisfied and credited to equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.18 Employee benefits (Continued)

(c) Share-based compensation benefits of the Group (Continued)

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing binomial model, which includes the impact of market performance conditions but excludes the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date.

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to become vested.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognised over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognised over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

A grant of equity instruments, that is cancelled or settled during the vesting period, is treated as an acceleration of vesting. The Group recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

At the end of each reporting period, the Group revises its estimates of the number of options and RSUs that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.18 Employee benefits (Continued)

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.19 Revenue recognition

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources

(a) Online paid reading

The Group generates revenue from the sale of online premium literature contents to the users primarily through its products, the online channels of various digital services rendered by Tencent (“the channels on Tencent products”) and third-party platforms.

With respect to the online paid reading revenue that derived from the Group's products, the Group is determined to be the primary obligor and accordingly, the Group records revenue on a gross basis. The users generally purchase the content by chapter or by book and cannot cancel the purchase once made. The users can pay for their purchases either through the online payment channels, tokens issued by related parties or through credits directly deposited into their respective accounts which they can make directly on the Group's self-owned platforms. The purchased content usually has no expiry date unless otherwise stated. The revenue from purchase of online contents is recognised at the time of purchase by the users as the Group does not have further obligation after providing the content to the user upon purchase and all other criteria for revenue recognition is met.

With respect to the online paid reading revenue that derived from the channels on Tencent products, the Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. When the Group is determined to be the primary obligor in the service rendered to the end users, the Group records revenue on a gross basis, and the platform distribution charges by Tencent are recorded as cost of revenues. When the Group evaluates and determines it is not the primary obligor, the Group records its revenue based on the portion of the sharing of revenues that derived from Tencent.

With respect to the online paid reading revenue that derived from third-party platforms, the Group evaluates and determines it is not the primary obligor in the service rendered to the end users and accordingly, the Group records its revenue based on the portion of the sharing of revenues that derived from the platforms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations

Intellectual property operations revenues consist primarily of sales of adaption rights and scripts, copyrights licensing, in-house online games operations, and license of television series, film rights and animated series and film distribution in movie theatres.

- ***Sales of adaptation rights and scripts***

Revenue from sales of adaptation rights and scripts is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred when an agreement has been signed, the required contents have been delivered, the customer can obtain substantially all of the remaining benefits from the required contents, and the Group has no further obligations upon completion of sales. Revenue is recognised at a point in time when the customer obtains control of the asset.

- ***In-house online games operations***

The Group provides game operation services through its own web-based platforms and third party web-based platforms. The Group's games are free-to-play and players can pay for virtual items to enhance the in-game experience. Upon the sale of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective games. As such, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognised as revenue subsequently only when the services have been rendered. The Group recognised the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group adopts different revenue recognition methods based on its specific responsibilities/obligations in different in-house online games operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***License of television series, film rights and animated series***

The Group generates revenue from license of television series, film rights and animated series to TV stations and online platforms. Revenue from license of television series and film rights and animated series is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, which is the TV stations and online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- **Film distribution in movie theatres**

The Group generates revenue from film distribution in the movie theatres. Revenue from film distribution represents the Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when the conditions are all met (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

However, films are an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is a usage-based royalty. The Group recognises revenue generated from a usage-based royalty only when (or as) the later of the following events occurs:

- (i) the usage occurs; and
- (ii) the performance obligation to which some or all of the usage-based royalty has been satisfied.

For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation is satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Payments made by the Group to the audiences through online ticket platform for ticket discount are assessed and accounted for the same as those paid directly to the Group's customer, which are recorded as net of revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- **Copyrights licensing**

The Group generates revenues from sub-licensing copyrights of literary works obtained from writers to online game companies, television producers, movie studios, and traditional offline book publishers for agreed periods. The revenue from sub-licensing agreements is recognised when all the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; (iii) the price to the customer is fixed or determinable; and (iv) collectability is probable. Depending on the terms of the respective agreements, revenue is recognised either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront with no future obligations or over the period of the sub-licensing agreement under which the Group need to provide continuous services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyright) is recognised when the contingency is resolved.

(c) Other revenues

The Group's other revenues are primarily derived from sales of physical books, game publishing and advertising. The Group recognises revenue when the effective control of the physical books are transferred, or when the respective services are rendered to the customers. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

2.19.2 Principal versus agent considerations

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

In evaluation of the Group's role as a principal or an agent, the Group considers, individually or in combination, whether the Group controls the specified good or service before it (i) is transferred to the customer, (ii) is primarily responsible for fulfilling the contract, (iii) is subject to inventory risk, and (iv) has discretion in establishing prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.19 Revenue recognition (Continued)

2.19.3 Incentives

For the online paid reading users loyalty programme (“VIP customers programme”) operated by the Group on its self-owned platform products, the loyalty programme revenue is allocated between the fair value of the VIP customers programme and that of other components of the sale. The amount allocated to the VIP customers programme is deferred, and is recognised as revenue when the Group has fulfilled its obligations to supply the discounted reading service under the terms of the VIP customers programme. Contract liabilities are recognised until the incentives are redeemed.

2.20 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.21 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.22 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.22 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

2 Summary of material accounting policies (Continued)

2.22 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets are small items of furniture.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liabilities and the amortisation of the right-of-use assets, there will be a net temporary difference on which deferred tax is recognised.

2.23 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

3 Summary of other accounting policies

3.1 Share capital

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

3.2 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.3 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, Hong Kong Dollars ("HKD"), USD, Singapore Dollars ("SGD") and Japanese Yen ("JPY"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

As of December 31, 2023 and 2022, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD RMB'000	RMB RMB'000	HKD RMB'000	SGD RMB'000	JPY RMB'000
As of December 31, 2023					
Monetary assets, current	85,647	587,676	84,804	11,982	1,036
Monetary liabilities, current	22,792	4,888	1,348	234	–
As of December 31, 2022					
Monetary assets, current	68,796	443,790	123,498	2,135	47
Monetary liabilities, current	20,096	8,006	1,019	8	–

The aggregate net foreign exchange loss was recognised in consolidated statement of comprehensive income and included in "finance costs, net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As the HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and the USD to be insignificant. As of December 31, 2023 and 2022, management considers that any reasonable changes in foreign exchange rates of SGD and JPY against RMB are insignificant. Accordingly, no sensitivity analysis is presented for foreign exchange rates of SGD and JPY.

For the PRC subsidiaries whose functional currencies are RMB, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the post-tax profit for the year ended December 31, 2023 would have been approximately RMB4,886,000 higher/lower (2022: RMB3,644,000 higher/lower), mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. For group companies outside the PRC whose functional currencies are USD, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, the post-tax profit for the year ended December 31, 2023 would have been approximately RMB50,283,000 higher/lower (2022: RMB43,578,000 higher/lower) mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in RMB.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and term deposits and structured deposits, details of which have been disclosed in Note 28 and Note 21.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 29. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

As of December 31, 2023 and 2022, the Group had no bank borrowings with variable interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk in respect of the long-term equity investments measured at fair value through profit or loss (Note 21) held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL at the end of each reporting period. If prices of the instrument held by the Group had been 5% (December 31, 2022: 5%) higher/lower as of December 31, 2023, post-tax profit for the year would have been approximately RMB41,902,000 higher/lower as a result of gains/losses on financial instruments classified as at FVPL (2022: RMB42,715,000 higher/lower).

(b) Credit risk

The Group is exposed to credit risk primarily in relation to its cash and deposits (including term deposits) placed with banks and financial institutions, trade receivables, as well as other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and deposits

Credit risk is managed on a group basis. To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit losses are immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables

To manage this risk, the Group has policies in place to ensure that revenues on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. As of December 31, 2023, approximately 68.0% (2022: 77.4%) of the total trade receivables were due from Tencent.

For the Group's online paid reading business, trade receivables at the end of each reporting period were mainly due from certain content distribution partners (including Tencent's online platforms) in Mainland of China. If the strategic relationship with content distribution partners is terminated or scaled back; or if content distribution partners alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with content distribution partners to ensure effective credit control. In view of the history of cooperation with content distribution partners and the sound collection history of receivables due from them, the directors of the Company believe that the expected credit loss inherent in the Group's outstanding trade receivable balances due from content distribution partners (except for the impaired receivables) is low.

For trade receivables of the physical books business, which are mainly from agencies, the credit quality of each agent is assessed, which takes into account its financial position, past experience and other factors. Based on historical experience, majority of the trade receivables of the physical books business were settled within credit term, hence the expected credit loss is low.

For trade receivables due from TV stations, online platforms and film distributors, if the strategic relationship with TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if TV stations, online platforms and film distributors alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with TV stations, online platforms and film distributors to ensure effective credit control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the year end with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations; and
- actual or expected significant changes in the operating results of customers.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group also performed assessment at an individual basis, when it becomes aware of an increase in credit risk for the individual financial instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

On that basis, the loss allowances as of December 31, 2023 and 2022 were determined as follows:

As of December 31, 2023	Within credit terms	Within 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate							
Expected loss rate on collective basis	0.33%	0.37%	0.58%	1.00%	1.00%	16.90%	
Expected loss rate on individual basis	-	-	-	1.00%	-	74.21%	
Gross carrying amount- trade receivables	1,599,020	73,429	6,433	8,253	-	492,075	2,179,210
Loss allowance							
Loss allowance provision on collective basis	5,318	271	37	52	-	52,965	58,643
Loss allowance provision on individual basis	-	-	-	31	-	132,536	132,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

As of	Within credit terms	Within 30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
December 31, 2022							
Expected loss rate							
Expected loss rate on collective basis	0.44%	0.55%	1.00%	1.00%	1.00%	20.84%	
Expected loss rate on individual basis	1.00%	50.17%	-	-	-	58.28%	
Gross carrying amount- trade receivables							
	1,606,003	73,256	25,558	2,738	36,000	502,304	2,245,859
Loss allowance							
Loss allowance provision on collective basis	7,014	367	256	27	360	58,981	67,005
Loss allowance provision on individual basis	15	3,444	-	-	-	127,805	131,264

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As of December 31,	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	198,269	149,311
Provision for doubtful receivables	88,791	118,436
Receivables written off during the year as uncollectable	(6,454)	(8,257)
Collection of amounts previously impaired	(89,396)	(61,221)
At the end of the year	191,210	198,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of receivables from co-producers and others for production of television series and films, rental deposits, staff advances and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrowers' ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower.

For other receivables from co-producers and others for production of television series and films, if the strategic relationship with co-producers, financial investors, TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if co-producers, financial investors, TV stations, online platforms and film distributors alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with co-producers, financial investors, TV stations, online platforms and film distributors to ensure effective credit control.

Management considers other receivables (excluding receivables from certain co-producers and others for production of television series and films) to be low credit risk when they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2023					
Trade payables	1,119,714	-	-	-	1,119,714
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable)	596,635	-	-	-	596,635
Borrowings (Note 29)	10,000	-	-	-	10,000
Financial liabilities at fair value through profit or loss (Note 32)*	183,659	186,372	-	-	370,031
Lease liabilities (Note 17)	82,653	82,396	79,316	-	244,365
	1,992,661	268,768	79,316	-	2,340,745

* 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 RMB71,484,000 and RMB72,743,000 will be issued as consideration for the business combination in less than 1 year, between 1 and 2 years, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) 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
	2,619,633	247,840	277,010	-	3,144,483

* 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 RMB110,127,000, RMB74,498,000 and RMB70,593,000 will be issued as consideration for the business combination in less than 1 year, between 1 and 2 year and between 2 and 5 years, respectively.

4.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents and term deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debts. As of December 31, 2023 and 2022, the Group has a net cash position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.3 Fair value estimation

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

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2023:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2023				
Financial assets				
– FVPL	6,579	–	3,292,187	3,298,766
– FVOCI	4,071	–	–	4,071
	10,650	–	3,292,187	3,302,837
Financial liabilities at fair value through profit or loss	–	–	502,973	502,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 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 year ended December 31, 2023 and 2022.

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.3 Fair value estimation (Continued)

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.

There were no changes in valuation techniques during the years ended December 31, 2023 and 2022.

The changes in level 3 instruments for the years ended December 31, 2023 and 2022 are presented in the following table:

	Financial assets		Financial liabilities	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Opening balance	972,659	1,295,983	872,775	1,151,854
Additions	11,537,275	162,845	–	–
Compensation cost	–	–	3,650	3,650
Changes in fair value recognised as other gains/(losses), net	(3,156)	(523,560)	15,410	(96,730)
Changes in fair value recognised as revenues	–	3,428	–	–
Disposals/settlements	(9,225,988)	–	–	–
Settlement of investments in television series and films	–	(10,762)	–	–
Settlement of contingent consideration payable	–	–	(388,862)	(185,999)
Currency translation differences	11,397	44,725	–	–
Closing balance	3,292,187	972,659	502,973	872,775
Include unrealised gains and losses recognised in profit or loss attributable to balances held at the end of the reporting period	(62,695)	(506,389)	8,710	(66,284)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.3 Fair value estimation (Continued)

Valuation inputs and relationships to fair value

The Group has performed the fair value valuation of investments in unlisted entities, structured deposits and contingent consideration payables as of December 31, 2023 and 2022.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value		Significant Unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	As of December 31,			As of December 31,		
	2023	2022		2023	2022	
	RMB'000	RMB'000		RMB'000	RMB'000	
Asset						
Investments in unlisted entities	849,468	853,330	IPO probability	20%-50%	40%-50%	The fair value depends on rights of the Group.
Investments in structured deposits	2,441,897	114,829	Expected rate of return	1.30%-3.15%	2.65%-2.85%	The higher the expected rate of return, the higher the fair value.
Liabilities						
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media	502,973	872,775	Note	Net profit growth rate: 10%	Net profit growth rate: 10%	The higher the net profit growth rate, the higher the fair value.
				Expected volatility: 20%	Expected volatility: 25%	The higher the expected volatility, the lower the fair value.

Note:

The significant unobservable inputs of contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media include the growth rate and volatility of net profit of New Classics Media used for reflecting the associated risk of the payment to arrive the present value of consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4 Financial risk management (Continued)

4.3 Fair value estimation (Continued)

Sensitivity analysis

For the fair value of the Group's level 3 instruments, namely the investment in unlisted entities, reasonably possible changes at December 31, 2023 and 2022 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	As of December 31,			
	2023		2022	
	Changes in fair value (in RMB'000)			
	Increase	Decrease	Increase	Decrease
Investments in unlisted entities				
– IPO probability (5% movement)	(700)	11,800	(2,700)	2,700
Investments in structured deposits				
– Expected rate of return (0.5% movement)	1,386	(1,386)	146	(146)
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media				
– Net profit growth rate (5% movement)	7,518	(7,316)	9,805	(16,141)
– Expected volatility (5% movement)	(7,129)	8,125	(19,416)	11,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

5 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Recoverability of non-financial assets

Television series and film rights

The management of the Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- An asset's market value has declined significantly more than would be expected because of the passage of time or normal use; and
- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a television series-by-television series and film-by-film basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

The key assumptions made by the management used in the cash flow forecasts mainly include license agreements entered or to be entered into by the Group, historical trend of similar products and discount rate. Discount rate adopted when calculating discounted cash flows, which reflects market assessments of time value and the specific risks relating to the industry that the Group operates. The Group's estimation of recoverable amount of television series and film rights reflects the management's best estimate of future cash flows expected to be generated from the television series and film rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

5 Critical accounting estimates and judgements (Continued)

(a) Recoverability of non-financial assets (Continued)

Prepayments for production of television series and films and prepayments to directors and writers

At the end of each reporting period, management assesses whether the impairment indicator existed for prepayments for production of television series and films and prepayments to directors and writers based on the contract terms of the agreements, estimated budget of the proposed production and the progress on how the prepayment has been used or realised.

Goodwill and other non-financial assets

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Other non-financial assets, including investments in associates and joint ventures, and intangible assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

5 Critical accounting estimates and judgements (Continued)

(b) Expected credit loss for receivables

The loss allowances for receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

For trade receivables that share same risk characteristics with others, management calculates the expected credit losses using the roll rate model, and further incorporated forward-looking adjustments to reflect management's forecasts of macroeconomic factors in different scenarios as this affects the customers' ability to settle the receivables.

For trade receivables that do not share same risk characteristics with others, management assesses their expected credit losses on an individual basis in different scenarios as to reflect the customers' ability to settle the receivables. For detailed information about the credit risk of trade receivables, please refer to Note 4.1(b)(ii).

(c) Fair value measurement of FVPL

The fair value assessment of FVPL that are measured at level 3 fair value hierarchy requires estimates, which include the IPO probability, revenue growth rate, expected volatility, appropriate discount rates, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

With respect to the valuation of the contingent consideration payable that arising from the Group's acquisition of New Classics Media, the Group uses its judgement to select an appropriate method and make assumptions, including the growth rate and volatility of net profit of New Classics Media, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

5 Critical accounting estimates and judgements (Continued)

(d) Share-based compensation arrangements

As mentioned in Note 2.18(c), the Group has granted share options to its directors and employees. The directors have adopted the binomial model to determine the total fair value of the options granted, which is to be expensed over the respective vesting periods. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the binomial model (Note 35).

The fair value of share options granted to directors and employees using the binomial model was approximately HKD18.7 million and HKD54.0 million (equivalent to approximately RMB17.2 million and RMB46.7 million) in 2023 and 2022, respectively. The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the options and awarded shares (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of December 31, 2023, the Expected Retention Rate of the Group had been assessed to be no lower than 92% (December 31, 2022: 92%).

(e) Useful lives and amortisation charges of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortisation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore amortisation expense in future periods.

(f) Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

6 Segment information

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

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

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

As of December 31, 2023 and 2022, the chief operating decision-makers assessed the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses were common costs incurred for these operating segments as a whole and therefore, they were not included in the measure of the segments' performance which was used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains/(losses), net, finance costs, net, net reversal of/(provision for) impairment losses on financial assets, share of net profit of associates and joint ventures and income tax expense were also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended December 31, 2023 and 2022. The revenues from external customers reported to the chief operating decision-makers were measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

6 Segment information (Continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

7 Revenues

7.1 Disaggregation of revenue from contracts with customers

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

7 Revenues (Continued)

7.2 Liabilities related to contracts with customers

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

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

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

(a) Revenue recognised in relation to deferred revenue

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

8 Expenses by nature

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Content costs (Note a)	1,646,031	1,512,746
Promotion and advertising expenses	1,185,454	1,472,813
Employee benefits expenses (Note 9)	1,076,230	1,212,564
Platform distribution costs	808,135	850,211
Production costs of television, web and animated series and films	545,051	644,981
Payment handling costs	264,770	253,883
Amortisation of intangible assets (Note 18)	182,689	261,206
Bandwidth and server custody fees	105,151	78,719
Game development outsourcing costs	96,500	82,599
Impairment loss on television series and film rights (Note 26)	86,367	15,171
Depreciation of right-of-use assets (Note 17)	81,956	95,124
Cost of physical inventories sold	58,959	43,420
Travelling, entertainment and general office expenses	48,591	42,587
Professional service fees	46,779	48,371
Impairment loss on prepayments for production of television series and films (Note b)	41,075	–
Depreciation of property, plant and equipment (Note 16)	33,378	21,414
Provision for physical inventory obsolescence	19,684	13,733
Tax surcharge expenses	16,629	20,570
Auditors' remuneration		
– Audit services	10,946	10,669
– Non-audit services	870	1,412
Impairment loss on prepayments to directors and writers	9,522	23,556
Logistic expenses	5,983	5,779
Expense relating to short-term leases and low value leases (Note 17)	4,976	4,261
Others	145,150	120,521
	6,520,876	6,836,310

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 year ended December 31, 2023, an impairment loss of approximately RMB41,075,000 was recognised in cost of revenues.
- (c) Research and development expenses (being included in the Group's general and administrative expenses) for the year ended December 31, 2023 was approximately RMB561,576,000 (2022: RMB554,753,000) which mainly included employee benefits expenses of research and development function staff.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

9 Employee benefits expenses

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Wages, salaries and bonuses	673,168	708,606
Other social security costs, housing benefits and other employee benefits	125,393	117,879
Pension costs – defined contribution plans	69,266	67,769
Share-based compensation expenses (Note 35)	131,467	241,344
Other compensation costs (Note 32)	56,936	56,936
Others	20,000	20,030
	1,076,230	1,212,564

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended December 31, 2023 and 2022 are listed below:

	Percentage
Pension insurance	14.0% – 16.0%
Medical insurance	6.0% – 10.0%
Unemployment insurance	0.5% – 0.7%
Housing fund	5.0% – 12.0%

During the year ended December 31, 2023 and 2022, no contribution to pension plans was forfeited (by the Group on behalf of its employees who leave the pension plan prior to vesting fully in such contribution) and used by the Group to reduce the existing level of contribution. As of December 31, 2023 and 2022, there was no forfeited contribution available for reducing the level of contribution to pension plans in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

9 Employee benefits expenses (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three directors during the year ended December 31, 2023 (2022: three), and their emoluments are reflected in the analysis shown in Note 9(b). The emoluments payable to the remaining two (2022: two) individuals during the year are as follows:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Salaries and wages	4,124	5,040
Discretionary bonuses	4,535	5,835
Other social security costs, housing benefits and other employee benefits	249	124
Pension costs – defined contribution plans	93	197
Share-based compensation expenses	6,442	13,890
	15,443	25,086

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2023	2022
Emoluments bands:		
HKD10,000,001 to HKD20,000,000	–	1
HKD5,000,001 to HKD10,000,000	2	1
HKD4,000,001 to HKD5,000,000	–	–
HKD3,000,001 to HKD4,000,000	–	–
HKD2,000,001 to HKD3,000,000	–	–
HKD1,000,001 to HKD2,000,000	–	–
	2	2

During the years ended December 31, 2023 and 2022, no director or the five highest paid individuals received any emoluments from the Group as an inducement to join or leave the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

9 Employee benefits expenses (Continued)

(b) Benefits and interests of directors

(i) Directors' and the chief executive's emoluments

The remuneration of each director for the year ended December 31, 2023 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Other social security costs,				Total RMB'000
				Pension costs-defined contribution plan RMB'000	housing benefits and other employee benefits RMB'000	Share- based compensation expenses RMB'000	Other compensation costs RMB'000	
Executive directors								
- Hou Xiaonan	-	2,226	6,000	33	39	6,652	-	14,950
- Huang Yan ⁽¹⁾	-	1,356	2,700	70	78	6,707	-	10,911
- Cheng Wu ⁽²⁾	-	1,406	-	19	27	2,899	-	4,351
Non-executive directors								
- James Gordon Mitchell	-	-	-	-	-	-	-	-
- Cao Huayi *	-	1,200	2,000	77	107	-	53,287	56,671
- Cheng Yun Ming Matthew ⁽³⁾	-	-	-	-	-	-	-	-
- Zou Zhengyu ⁽⁴⁾	-	-	-	-	-	-	-	-
- Xie Qinghua ⁽⁵⁾	-	-	-	-	-	-	-	-
Independent non-executive directors								
- Yu Chor Woon Carol	630	-	450	-	-	-	-	1,080
- Leung Sau Ting Miranda	630	-	594	-	-	-	-	1,224
- Liu Junmin	630	-	450	-	-	-	-	1,080
	1,890	6,188	12,194	199	251	16,258	53,287	90,267

* During the year ended December 31, 2023, Cao Huayi's other compensation costs mainly comprised of charges related to the contingent compensation arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

9 Employee benefits expenses (Continued)

(b) Benefits and interests of directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

The remuneration of each director for the year ended December 31, 2022 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share- based compensation expenses* RMB'000	Other compensation costs RMB'000	Total RMB'000
Executive directors								
- Cheng Wu ⁽²⁾	1,106	1,787	8,055	18	26	13,808	-	24,800
- Hou Xiaonan	1,320	-	-	-	-	9,358	-	10,678
Non-executive directors								
- James Gordon Mitchell	-	-	-	-	-	-	-	-
- Cao Huayi **	-	1,200	2,000	88	116	-	53,287	56,691
- Cheng Yun Ming Matthew ⁽³⁾	-	-	-	-	-	-	-	-
- Zou Zhengyu ⁽⁴⁾	-	-	-	-	-	-	-	-
Independent non-executive directors								
- Yu Chor Woon Carol	601	-	429	-	-	-	-	1,030
- Leung Sau Ting Miranda	601	-	567	-	-	-	-	1,168
- Liu Junmin	601	-	429	-	-	-	-	1,030
	4,229	2,987	11,480	106	142	23,166	53,287	95,397

* During the year ended December 31, 2022, the amount of share-based compensation expense mainly represented the share options granted to two directors of the Company, among which 33% can be exercised immediately and the remaining tranches will become exercisable in each subsequent year. Each share option shall entitle the holder to subscribe for one share upon exercise of such share option at an exercise price of HKD30.69 per share.

Except for the share-based compensation expenses shown above, the Group also recognised share-based compensation expenses relating to the cancelled 2,175,000 and 1,631,250 share options granted to certain directors (Mr. Cheng Wu and Mr. Hou Xiaonan) during the year ended December 31, 2022. The amounts included the share-based compensation expenses relating to the cancelled share options recognised before the cancellation during the year, as well as the expenses treated as acceleration of vesting upon the cancellation date (Note 35 (b)).

** During the year ended December 31, 2022, Cao Huayi's other compensation costs mainly comprised of charges related to the contingent compensation arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

9 Employee benefits expenses (Continued)

(b) Benefits and interests of directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

Notes:

- (1) Appointed as a director of the Company on June 30, 2023.
- (2) Appointed as a director of the Company on April 27, 2020 and resigned with effect from May 10, 2023.
- (3) Appointed as a director of the Company on November 22, 2019 and retired on May 22, 2023.
- (4) Appointed as a director of the Company on May 24, 2021 and resigned on June 30, 2023.
- (5) Appointed as a director of the Company on May 22, 2023.

(ii) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

10 Other gains/(losses), net

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Fair value loss of investments in redeemable shares (Note 21)	(67,178)	(494,389)
Fair value gain/(loss) of investments in other financial assets at fair value through profit or loss (Note 21)	61,330	(35,599)
Government subsidies	113,781	201,090
Fair value (loss)/gain on contingent consideration payable (Note 32)	(15,410)	96,730
Gain on disposals of investments in associates (Note a)	40,416	53,767
Impairment provision for investments in associates (Note 19)	(107,155)	(37,389)
Impairment provision for intangible assets (Note 18)	(44,255)	–
Loss on disposal of a subsidiary (Note b)	–	(16,934)
Compensation received for copyright infringements	6,763	14,419
Dilution gains on a deemed disposal (Note 19)	12,413	–
Others, net	10,788	11,228
	11,493	(207,077)

Notes:

- (a) In May 2023, after considering the Group's investment's objectives and the investee's market value, the Group disposed partially 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 year ended December 31, 2023.
- (b) In April 2022, the Group entered into a share transfer agreement to sell in full 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. Disposal loss of approximately RMB16,934,000 was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income for the year ended December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

11 Finance costs, net

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Interest expenses on borrowings	9,990	37,351
Interest expenses on lease liabilities (Note 17)	9,668	10,712
Foreign exchange (gain)/loss, net	(6,767)	5,922
	12,891	53,985

12 Interest income

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

13 Income tax expense

(i) Cayman Islands corporate income tax

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

(ii) Hong Kong profits tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

13 Income tax expense (Continued)

(iii) PRC corporate income tax (“CIT”)

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

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

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

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

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Current income tax	184,731	216,383
Deferred income tax (Note 23)	(86,881)	(50,191)
Income tax expense	97,850	166,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

13 Income tax expense (Continued)

(iii) PRC corporate income tax (“CIT”) (Continued)

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

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

(iv) OECD Pillar Two model rules

The Organisation for Economic Co-operation and Development (“OECD”) published Pillar Two model rules in December 2021, with the effect that a jurisdiction may enact domestic tax laws (“Pillar Two legislation”) to implement the Pillar Two model rules on a globally agreed common approach. A Pillar Two legislation applies to a member of a multinational group within the scope of the Pillar Two model rules (i.e., a multinational Group that has annual revenue of EUR 750 million or more in the Consolidated Financial Statements of the Ultimate Parent Entity in at least two of the four Fiscal Years immediately preceding the tested Fiscal Year), which the Group’s ultimate holding company Tencent is reasonably expected to fall into. As a partially owned parent entity (“POPE”) of Tencent, it imposes a top-up tax on Group’s profits arising in a jurisdiction whenever the effective tax rate determined by the Pillar Two model rules on a jurisdictional basis is below a minimum rate of 15%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

13 Income tax expense (Continued)

(iv) OECD Pillar Two model rules (Continued)

As of 31 December 2023, the Group mainly operates in the Mainland of China, Hong Kong and Singapore, where the legislation is not yet substantively enacted or enacted. Besides, certain of the Company's subsidiaries are located in jurisdictions where Pillar Two legislation is enacted or substantively enacted, but not yet in effect, mainly Japan and Thailand. However, some of these jurisdictions are in the process of issuing their Pillar Two legislation. Tencent and the Group are currently in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect. It is reasonably estimated that, if Pillar Two legislation had been in effect, the Group's income tax would not have been materially changed for the year ended 31 December 2023.

Since none of the Pillar Two legislation has come into effect, the Group does not recognise any related current tax for the year ended 31 December 2023. For deferred income tax accounting, the Group has applied the exception to recognising and disclosing information about deferred income tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023 (Note 2.1.5).

14 Earnings per share

- (a) Basic earnings per share for the years ended December 31, 2023 and 2022 are calculated by dividing the profit attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

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 year ended December 31, 2023, the Company had dilutive potential ordinary shares of RSUs and share options granted to employees and directors (Note 35). For the RSUs, a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs were assumed to have been fully vested and released from restrictions with no impact on earnings. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that would have been issued at fair value (determined as the average market share price of the Company's shares) were incremental shares issued for no consideration which causes dilution to earnings per share.

The impact of potential ordinary shares to be issued by an associate of the Group into ordinary shares of the associate was included in the computation of earnings per share for the year ended December 31, 2022 as the impact would be dilutive.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

15 Dividends

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

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
At December 31, 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	10,848	124	1,596	1,171	10	16,703	30,452
Transfer from construction in progress	–	19,128	3,326	–	–	(22,454)	–
Disposals	(539)	(59)	(938)	(69)	–	–	(1,605)
Depreciation	(6,633)	(21,136)	(4,597)	(445)	(567)	–	(33,378)
Closing net book amount as of December 31, 2023	25,173	70,501	12,570	1,748	18,335	–	128,327
At December 31, 2022							
Opening net book amount as of January 1, 2022	26,606	7,760	3,092	1,914	–	5,751	45,123
Additions	8,077	–	12,273	62	19,094	72,886	112,392
Transfer from construction in progress	–	72,886	–	–	–	(72,886)	–
Disposals	(1,597)	(327)	(887)	(180)	–	–	(2,991)
Depreciation	(11,528)	(7,865)	(1,294)	(525)	(202)	–	(21,414)
Disposal of a subsidiary (Note 10(b))	(64)	(10)	(1)	(180)	–	–	(255)
Currency translation differences	3	–	–	–	–	–	3
Closing net book amount as of December 31, 2022	21,497	72,444	13,183	1,091	18,892	5,751	132,858

During the year ended December 31, 2023, depreciation expense of approximately RMB793,000 (2022: RMB586,000), RMB1,195,000 (2022: RMB1,070,000) and RMB31,391,000 (2022: RMB19,758,000) were charged to “cost of revenues”, “selling and marketing expenses” and “general and administrative expenses”, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

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 December 31, 2023 RMB'000	As of December 31, 2022 RMB'000
Right-of-use assets		
Properties	207,675	183,141
Lease liabilities		
Current	74,921	65,505
Non-current	153,182	134,595
	228,103	200,100

Additions to the right-of-use assets during the year ended December 31, 2023 were approximately RMB106,826,000 (2022: RMB2,001,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

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:

	Year ended December 31, 2023 RMB'000	Year ended December 31, 2022 RMB'000
Depreciation charge of right-of-use assets		
Properties	(81,956)	(95,110)
Vehicle	–	(14)
	(81,956)	(95,124)
Interest expense (included in finance costs, net)	9,668	10,712
Expense relating to short-term leases (included in selling and marketing expenses and general and administrative expenses)	4,459	4,242
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	517	19
	14,644	14,973

For the year ended December 31, 2023, the total cash outflow for leases was approximately RMB90,946,000 (2022: RMB85,510,000).

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

The Group leases various properties, vehicles and equipment. Rental contracts are typically made for fixed periods of no longer than 9 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

18 Intangible assets

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

	Goodwill	Non- compete agreements	Trademarks	Copyrights of contents	Writers contracts	Software	Domain names	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2022								
Opening net book amount as of January 1, 2022	6,632,807	27,590	578,042	199,318	7,332	8,282	2,128	7,455,499
Additions	-	-	2	217,925	-	3,860	-	221,787
Amortisation	-	(12,749)	(20,802)	(214,177)	(7,332)	(6,107)	(39)	(261,206)
Currency translation differences	-	-	-	5,556	-	3	-	5,559
Closing net book amount as of December 31, 2022	6,632,807	14,841	557,242	208,622	-	6,038	2,089	7,421,639

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

18 Intangible assets (Continued)

(a) Impairment tests for goodwill

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

	As of December 31, 2023 RMB'000	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

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

The respective recoverable amount of the CGU relating to online business and acquired TV and film business had been determined based on its respective value-in-use calculations. The value-in-use calculations adopted cash flow projections derived from expected business operating covering a five-year period. The accuracy and reliability of the information was reasonably assured by the appropriate budgeting, forecast and control processes established by the Group. The management leveraged their extensive experiences in the industries and developed forecasts based on past performance and their expectation of future business plans and market developments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

18 Intangible assets (Continued)

(a) Impairment tests for goodwill (Continued)

Impact of possible changes in key assumptions

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

2023	Online business	Acquired TV and film business
Gross margin (%)	From 51.2% to 52.1%	From 51.6% to 59.3%
Annual growth rate (%)	From 3.3% to 11.1%	From 4.8% to 18.5%
Pre-tax discount rate (%)	17.9%	16.9%
<hr/>		
2022	Online business	Acquired TV and film business
Gross margin (%)	From 54.0% to 55.9%	From 44.0% to 50.4%
Annual growth rate (%)	From 7.4% to 19.3%	From 8.3% to 17.3%
Pre-tax discount rate (%)	19.5%	17.1%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

18 Intangible assets (Continued)

(a) Impairment tests for goodwill (Continued)

Impact of possible changes in key assumptions (Continued)

As of December 31, 2023, the carrying amounts of online business and acquired TV and film business were RMB3,427 million and RMB7,355 million. The recoverable amounts of online business and acquired TV and film business calculated based on its VIU exceeded their carrying amounts by approximately RMB1,273 million and RMB802 million, respectively. If the budgeted revenue growth rate for each year during the forecast period used in online business value-in-use calculation and acquired TV and film business value-in-use calculation had been decreased by 5%, the estimated recoverable amounts shall still exceed their respective carrying amounts by approximately RMB1,213 million (2022: RMB1,088 million) and RMB649 million (2022: RMB662 million). If the pre-tax discount rate applied to the cash flow projections had been increased by 5%, the estimated recoverable amounts shall still exceed their carrying amounts by approximately RMB1,042 million (2022: RMB990 million) and RMB448 million (2022: RMB435 million), respectively.

(b) Impairment tests for trademarks

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

(c) Impairment tests for copyrights

Impairment review on the copyrights of certain contents had been conducted by the management as of December 31, 2023 according to IAS 36 “Impairment of assets”. As of December 31, 2023, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2023, the Group made an impairment provision of approximately RMB44,255,000 (2022: nil) against the carrying amount of such copyrights. Sensitivity analysis had also been performed by management as of December 31, 2023 and the estimated changes in the recoverable amount was considered to be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19 Investments in associates and joint ventures

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

(a) Investments in associates

	As of December 31,	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	476,225	490,500
Additions	23,027	74,403
Share of net loss of associates	(1,976)	(29,752)
Share of other comprehensive loss of associates	(647)	(393)
Impairment provision (Note)	(72,502)	(37,389)
Disposals of associates (Note 10(a))	(28,514)	(20,550)
Dilution gains on a deemed disposal	12,413	–
Transfer	–	(1,451)
Currency translation differences	1,379	857
At the end of the year	409,405	476,225

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 RMB72,502,000 against the carrying amounts of certain investments in associates for the year ended December 31, 2023 (2022: RMB37,389,000). The impairment losses were mainly resulted from decline in of financial and business outlook of certain associates and adverse changes in the market environment of the underlying businesses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19 Investments in associates and joint ventures (Continued)

(a) Investments in associates (Continued)

Note: (Continued)

The associates of the Group have been accounted for by using equity method based on the financial information of the associates prepared under the accounting policies generally consistent with the Group.

In the opinion of the directors of the Company, none of the associates was material to the Group as of December 31, 2023.

There are no contingent liabilities relating to the Group's interest in associates.

(b) Investments in joint ventures

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

Note:

Both external and internal sources of information of joint ventures are considered in assessing whether there is any indication that the investments may be impaired, including but not limited to financial position, business performance and market capitalisation. The Group carries out impairment assessment on those investments with impairment indicators, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use.

The Group made an impairment provision of approximately RMB34,653,000 against the carrying amount of investment in a joint venture during the year ended December 31, 2023 (2022: nil). The impairment loss was mainly resulted from decline of financial and business outlook of the investee and adverse changes in the market environment of the underlying business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19 Investments in associates and joint ventures (Continued)

(b) Investments in joint ventures (Continued)

Set out below is the major joint venture of the Group as of December 31, 2023. The joint venture as listed below has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also its principal place of business.

Name	Date of incorporation	Particulars of issued shares held (RMB'000)	Place of incorporation	Percentage of ownership interest attributable to the Group		Principal activities
				As of December 31, 2023	2022	
Beijing Jinjiang Networking Technology Co., Ltd. ("Jinjiang")	March 13, 2006	5,550	The PRC	50.00%	50.00%	Online reading service

Summarised financial information of the Group's major joint venture

Set out below is the summarised financial information for Jinjiang, which is accounted for using the equity method.

	Jinjiang	
	December 31, 2023 RMB'000	December 31, 2022 RMB'000
Current assets	1,688,296	1,280,014
Non-current assets	1,478	1,804
Current liabilities	811,171	415,418
Revenue	1,415,920	1,314,632
Profit for the year	456,091	452,156

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19 Investments in associates and joint ventures (Continued)

(b) Investments in joint ventures (Continued)

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of its interest in the joint venture.

	Jinjiang	
	December 31, 2023 RMB'000	December 31, 2022 RMB'000
Net assets at the beginning of the year	866,400	730,034
Profit for the year	456,091	452,156
Dividends	(392,664)	(315,790)
Net assets at the end of the year	929,827	866,400
Interest in joint ventures	50.00%	50.00%
Goodwill	2,447	2,447
Carrying value	467,361	435,647

As of December 31, 2023, the carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method were approximately RMB47,917,000 (2022: RMB96,882,000).

There are no contingent liabilities relating to the Group's interest in the joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

20 Financial instruments by category

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value:		
– FVPL (current and non-current portions) (Note 21)	3,298,766	981,570
– FVOCI (Note 22)	4,071	8,009
Financial assets at amortised cost:		
– Trade and notes receivables (Note 27)	1,988,200	2,048,930
– Deposits and other assets (current and non-current portions) (Note 24)	953,186	702,216
– Term deposits (current and non-current portions) (Note 28)	2,867,739	1,848,660
– Cash and cash equivalents (Note 28)	2,801,796	5,545,766
	11,913,758	11,135,151

	As of December 31,	
	2023 RMB'000	2022 RMB'000
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)	502,973	872,775
Financial liabilities at amortised cost:		
– Trade payables (Note 30)	1,119,714	1,203,873
– Lease liabilities (current and non-current portions) (Note 17)	228,103	200,100
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other taxes payable) (Note 31)	596,635	651,422
– Long-term payables	1,151	4,691
– Borrowings (Note 29)	10,000	417,876
	2,458,576	3,350,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

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

FVPL include the following:

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

Movement of FVPL is analysed as follows:

	As of December 31,	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	981,570	1,310,030
Additions (Note i)	11,537,275	162,845
Changes in fair value recognised as other gains/(losses), net (Note 10)	(5,848)	(529,988)
Changes in fair value recognised as revenues	–	3,428
Disposals/settlements (Note ii)	(9,225,988)	–
Settlement of investment in films	–	(10,762)
Currency translation differences	11,757	46,017
At the end of the year	3,298,766	981,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

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

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

Notes:

- (i) During the year ended December 31, 2023, the Group's additions of financial assets at FVPL mainly included:
- (1) Investments in structured deposits with guaranteed principal and floating return at a cash consideration of approximately RMB11,470,000,000. Fair value gain from these investments was recognised in "other gains/ (losses), net" in the consolidated statement of comprehensive income.
 - (2) Investments in convertible bonds of an investee company that principally engaged in audio series and stories business at a purchase consideration of USD4,000,000 (equivalent to approximately RMB28,331,000); and
 - (3) Investments in redeemable convertible preferred shares of a third-party company that was principally engaged in the online reading business at a cash consideration of USD3,000,000 (equivalent to approximately RMB21,668,000), which represented 3.75% equity interest of the investee on an outstanding and fully converted basis.
- (ii) During the year ended December 31, 2023, the Group's disposals of financial assets at FVPL mainly included the receipts from maturity of approximately RMB9,202,961,000 structured deposits.

22 Financial asset at fair value through other comprehensive income

FVOCI include the following:

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Included in non-current assets:		
Investment in a listed entity	4,071	8,009

Movement of FVOCI is analysed as follows:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
At the beginning of the year	8,009	14,073
Changes in fair value	(4,312)	(7,483)
Currency translation difference	374	1,419
At the end of the year	4,071	8,009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

23 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The analysis of deferred income tax assets and liabilities is as follows:

	As of December 31, 2023 RMB'000	Restated As of January 1, 2023 RMB'000
Gross deferred income tax assets:		
– to be recovered after more than 12 months	181,625	148,770
– to be recovered within 12 months	253,200	192,294
	434,825	341,064
Set-off of deferred income tax assets pursuant to set-off provisions	(40,704)	(28,781)
Net deferred income tax assets	394,121	312,283
Gross deferred income tax liabilities:		
– to be recovered after more than 12 months	(118,939)	(153,634)
– to be recovered within 12 months	(56,285)	(14,710)
	(175,224)	(168,344)
Set-off of deferred income tax liabilities pursuant to set-off provisions	40,704	28,781
Net deferred income tax liabilities	(134,520)	(139,563)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

23 Deferred income taxes (Continued)

The movements of the deferred income tax assets and liabilities before offsetting were as follows:

	Deferred income tax assets RMB'000	Deferred income tax liabilities RMB'000	Deferred income tax, net RMB'000
As of December 31, 2022	314,605	(141,885)	172,720
Adjustment on Amendments to IAS 12 (Note 2.1.5)	26,459	(26,459)	–
As of January 1, 2023 (Restated)	341,064	(168,344)	172,720
Credited to consolidated income statement	93,761	(6,880)	86,881
As of 31 December, 2023	434,825	(175,224)	259,601
	Deferred income tax assets RMB'000	Deferred income tax liabilities RMB'000	Deferred income tax, net RMB'000
As of December 31, 2021	271,815	(149,286)	122,529
Adjustment on Amendments to IAS 12 (Note 2.1.5)	40,869	(40,869)	–
As of January 1, 2022 (Restated)	312,684	(190,155)	122,529
Credited to consolidated income statement	28,380	21,811	50,191
As of 31 December, 2022 (Restated)	341,064	(168,344)	172,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

23 Deferred income taxes (Continued)

The movements in deferred income tax assets before offsetting were as follows:

	Provision for prepayment, inventory obsolescence, television series and film rights and doubtful receivables RMB'000	Tax losses RMB'000	Provision for investments in associates and a joint venture RMB'000	Accrued expense, right-of-use assets and accelerated amortisation of intangible assets RMB'000	Other temporary differences RMB'000	Total RMB'000
As of December 31, 2021	106,319	6,794	42,612	80,331	35,759	271,815
Adjustment on amendments to IAS12	–	–	–	40,869	–	40,869
As of January 1, 2022 (restated)	106,319	6,794	42,612	121,200	35,759	312,684
Recognised in the profit or loss	31,288	(6,759)	5,608	16,651	(3,998)	42,790
As of December 31, 2022 (restated)	137,607	35	48,220	137,851	31,761	355,474
As of December 31, 2022	137,607	35	48,220	96,982	31,761	314,605
Adjustment on amendments to IAS12	–	–	–	26,459	–	26,459
As of January 1, 2023 (restated)	137,607	35	48,220	123,441	31,761	341,064
Recognised in the profit or loss	11,403	53,926	13,573	9,707	5,152	93,761
As of December 31, 2023	149,010	53,961	61,793	133,148	36,913	434,825

Deferred income tax assets are recognised for tax losses carried forward and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As of December 31, 2023, the Group had not recognised deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB265,504,000 (December 31, 2022: RMB183,387,000). These tax losses will expire from 2024 to 2033.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

23 Deferred income taxes (Continued)

The movements in deferred income tax liabilities before offsetting were as follows:

	Intangible assets acquired in business combination RMB'000	Lease liabilities and other intangible assets arising from acquisitions RMB'000	Other temporary differences RMB'000	Total RMB'000
As of December 31, 2021	(146,630)	(1,224)	(1,432)	(149,286)
Adjustment on amendments to IAS12	–	(40,869)	–	(40,869)
As of January 1, 2022 (Restated)	(146,630)	(42,093)	(1,432)	(190,155)
Recognised in the profit or loss	8,045	641	(1,285)	7,401
As of December 31, 2022 (Restated)	(138,585)	(41,452)	(2,717)	(182,754)
As of December 31, 2022	(138,585)	(583)	(2,717)	(141,885)
Adjustment on amendments to IAS12	–	(26,459)	–	(26,459)
As of January 1, 2023 (Restated)	(138,585)	(27,042)	(2,717)	(168,344)
Recognised in the profit or loss	5,042	(7,283)	(4,639)	(6,880)
As of December 31, 2023	(133,543)	(34,325)	(7,356)	(175,224)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

24 Prepayments, deposits and other assets

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Non-current:		
Prepayments to directors and writers	99,796	108,630
Prepayments for production of television series and films	82,428	81,443
Deferred compensation cost (Note 32)	53,432	106,719
Deposits and prepayments	25,114	26,673
Interests receivable	22,531	–
Amount due from a related party (Note 39)	6,786	–
Prepayments for overseas licensed film rights	1,521	6,176
	291,608	329,641
Current:		
Amounts due from related parties (Note 39)	735,835	494,679
Receivables from co-producers and others for production of television series and films	99,714	229,733
Deferred cost	87,797	85,500
Recoverable value-added tax	87,503	100,520
Prepaid corporate income tax	44,811	122,011
Interests receivable	36,994	18,232
Prepayments to vendors and online writers	29,103	28,075
Prepayments for production of television series and films	17,981	42,209
Rental and other deposits	11,412	13,584
Royalty advances	5,129	6,447
Staff advances	331	1,345
Prepayments to directors and writers	–	22,906
Loan to a former subsidiary	–	6,766
Prepayments for overseas licensed film rights	–	120
Others	55,997	40,417
	1,212,607	1,212,544

The directors of the Company considered that the carrying amounts of “prepayments, deposits and other assets” (excluding prepayments) approximated to their respective fair values as of December 31, 2023 and 2022. At each period end, deposits and other assets are assessed for impairment with respect to their recoverability by considering the credit status of the payees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

25 Inventories

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

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 year ended December 31, 2023, the cost of inventories recognised as expenses amounted to approximately RMB402,863,000 (2022: RMB227,981,000) and the provision for impairment of inventories amounted to approximately RMB19,684,000 (2022: RMB13,733,000). All these expenses and impairment charge have been included in "cost of revenues" in the consolidated statements of comprehensive income.

During the year ended December 31, 2023, the provision for inventory obsolescence as utilised upon the Group's ultimate sales of the related inventories amounted to approximately RMB11,452,000 (2022: RMB12,760,000). There was no reversal or over-provision recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

26 Television series and film rights

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

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

Notes:

- (a) During the year ended December 31, 2023, the Group considered the expected recoverable amounts of certain completed television series and film rights could not cover the respective carrying amounts, and an impairment loss of approximately RMB86,367,000 (2022: RMB15,171,000) was recognised as cost of revenues.
- (b) The balance of television series and film rights production in progress represented costs associated with the production of television series and films, including remuneration of the directors, casts and the production crew, costumes, insurance, make-up and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights production in progress are transferred to television series and film rights completed upon completion of production.
- (c) The Group has entered into certain joint operation arrangements to produce and distribute television series and films in the PRC. As of December 31, 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 RMB471,894,000 (2022: RMB609,918,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

27 Trade and notes receivables

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

28 Cash and cash equivalents and term deposits

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Bank balances and term deposits	5,669,535	7,394,426
Less: Term deposits with initial term of over three months and less than one year	1,038,739	1,848,660
Term deposits with initial term of over one year	1,829,000	–
Cash and cash equivalents	2,801,796	5,545,766
Maximum exposure to credit risk	5,669,535	7,394,426

Bank balances and term deposits are denominated in the following currencies:

	As of December 31,	
	2023 RMB'000	2022 RMB'000
RMB	3,918,606	4,985,873
USD	1,653,100	2,281,260
HKD	84,274	120,994
SGD	8,944	1,986
Thai Baht (“THB”)	4,321	4,266
JPY	290	47
	5,669,535	7,394,426

Term deposits with initial terms of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as of December 31, 2023.

The effective interest rates of the term deposits with initial terms of over three months of the Group for the year ended December 31, 2023 were 3.45% (2022: 3.55%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

29 Borrowings

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

Notes:

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

The maturity of borrowings is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

30 Trade payables

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

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

31 Other payables and accruals

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Advertising and marketing expense accruals	230,005	233,466
Staff costs and welfare accruals	229,802	226,874
Other taxes payables	153,235	129,480
Payables of proceeds from license and distribution of television series and films rights as distributor (Note a)	126,856	228,630
Payables of professional service fee	35,390	30,893
Payables of outsourcing fee on game development	26,797	32,617
Payments received from co-producer (Note b)	19,252	2,369
Special funds payable	17,990	11,659
Payables related to purchase of intangible asset	11,357	11,864
Payables related to investments	8,940	–
Payables related to purchase of property, plant and equipment	4,580	11,294
Payables to financial investors in television series and films	–	408
Interests payable	–	49
Others	133,458	99,832
	997,662	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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

32 Financial liabilities at fair value through profit or loss

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Non-current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media	247,830	490,613
Current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media	255,143	382,162
	502,973	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.

"Monte Carlo Simulation Method" was used to in this exercise to measure the value of the contingent consideration. The future net profit of New Classics Media was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of New Classics Media. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the earn-out mechanism that set out in the supplemental SPA deed. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios.

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. For the year ended December 31, 2023, a total number of 4,028,496 shares (2022: 2,014,246 shares) was issued and a total cash consideration of approximately RMB272,035,000 (2022: RMB136,020,000) was paid under the new earn-out mechanism.

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. For the year ended December 31, 2023, the compensation costs amounting to approximately RMB53,286,000 were charged to "general and administrative expenses" in the consolidated statement of comprehensive income (For the year ended December 31, 2022: RMB53,286,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

32 Financial liabilities at fair value through profit or loss (Continued)

Note: (Continued)

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 terminates their employments. It was also considered and accounted as remuneration for their future services. As of December 31, 2023, RMB800,000 (2022: RMB1,050,000) had been deducted from the consideration payables since certain management employees had left New Classics Media in 2021. The compensation costs amounting to approximately RMB3,600,000 were charged to “general and administrative expenses” in the consolidated statement of comprehensive income during the year ended December 31, 2023 (For the year end December 31, 2022: RMB3,650,000).

33 Share capital, share premium and shares held for RSU schemes

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU schemes RMB'000	Total RMB'000
As of December 31, 2021	1,022,026,549	649	16,412,728	(17,450)	16,395,927
Transfer of vested RSUs	–	–	(27,605)	874	(26,731)
Repurchase and cancellation of shares	(10,681,200)	(7)	(211,825)	–	(211,832)
Issue of ordinary shares as consideration for a business combination (Note 32)	2,014,246	1	49,979	–	49,980
Repurchase of shares for RSU scheme	–	–	–	(2,189)	(2,189)
Issue of new shares pursuant to the RSU scheme	1,878,822	1	–	(1)	–
As of December 31, 2022	1,015,238,417	644	16,223,277	(18,766)	16,205,155
Transfer of vested RSUs	–	–	(27,453)	2,122	(25,331)
Issue of new shares pursuant to the RSU scheme	4,126,564	3	–	(3)	–
Issue of ordinary shares as consideration for a business combination (Note 32)	4,028,496	3	116,824	–	116,827
As of December 31, 2023	1,023,393,477	650	16,312,648	(16,647)	16,296,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

34 Other reserves

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option on non- controlling interests RMB'000	Shares- based compensation reserve RMB'000	Statutory surplus reserve RMB'000	Investment in joint ventures and associates RMB'000	Capital reserve RMB'000	FVOCI RMB'000	Total RMB'000
As of January 1, 2023	34,127	376,369	10,964	1,191,843	404,535	(43,268)	9,931	(29,380)	1,955,121
Currency translation differences	-	44,724	-	-	-	-	-	-	44,724
Share-based compensation expenses (Note 35)	-	-	-	131,467	-	-	-	-	131,467
Profit appropriations to statutory reserves (Note a)	-	-	-	-	46,988	-	-	-	46,988
Share of other comprehensive loss of associates	-	(647)	-	-	-	-	-	-	(647)
Net loss from change in fair value of FVOCI	-	-	-	-	-	-	-	(4,312)	(4,312)
As of December 31, 2023	34,127	420,446	10,964	1,323,310	451,523	(43,268)	9,931	(33,692)	2,173,341
As of January 1, 2022	34,127	254,278	10,964	950,499	257,984	(40,785)	9,931	(21,897)	1,455,101
Currency translation differences	-	117,435	-	-	-	-	-	-	117,435
Share-based compensation expenses (Note 35)	-	-	-	241,344	-	-	-	-	241,344
Profit appropriations to statutory reserves (Note a)	-	-	-	-	146,551	-	-	-	146,551
Share of other comprehensive loss of associates	-	(393)	-	-	-	-	-	-	(393)
Transfer from share of other comprehensive loss to profit or loss upon disposal of an associate	-	5,049	-	-	-	-	-	-	5,049
Net loss from change in fair value of FVOCI	-	-	-	-	-	-	-	(7,483)	(7,483)
Acquisition of non-controlling interests (Note b)	-	-	-	-	-	(2,483)	-	-	(2,483)
As of December 31, 2022	34,127	376,369	10,964	1,191,843	404,535	(43,268)	9,931	(29,380)	1,955,121

Notes:

- (a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting retained earnings/(accumulated losses) from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting retained earnings/(accumulated losses) brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (b) During the year ended December 31, 2022, the Group acquired non-controlling interests in the Group's non-wholly owned subsidiary, Ju Zheng Pictures (Tianjin) Co., Ltd., at aggregate considerations of approximately RMB4,899,000, which were settled in cash. The excess of considerations over the aggregate carrying amounts of acquired non-controlling interests was recognised directly in equity as "capital reserve".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

35 Share-based payments

(a) RSU schemes of the Group

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

(i) 2014 RSU Scheme

The Company adopted a share award scheme on December 23, 2014 to the extent of 25,000,000 new ordinary shares of the Company for the purpose of attracting and retaining the best available personnel, and providing additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 RSU Scheme"). The RSUs granted under the 2014 RSU Scheme would become vested with respect to 20% of the RSUs on each of the first five anniversaries of the grant date.

On March 12, 2016, the Company modified the vesting condition associated with the 2014 RSU Scheme in a non-beneficial way by adding a non-market performance condition relating to completion of a defined initial public offering of the Company.

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

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

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

Note:

If the grantee's employment with or service with the Group terminates (e.g. upon cessation of employment), then the grantee shall forfeit any rights to the RSUs or options subject to the unvested portion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

35 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
As of January 1, 2023	6,690,316
Granted	3,059,259
Forfeited	(966,351)
Vested	(1,957,050)
Outstanding balance as of December 31, 2023	6,826,174
As of January 1, 2022	4,351,636
Granted	4,205,077
Forfeited	(709,754)
Vested	(1,156,643)
Outstanding balance as of December 31, 2022	6,690,316

During the year ended December 31, 2023, there was no RSU granted to executive directors of the Company (2022: 80,700 RSUs were granted to an executive director of the Company).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

35 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
As of January 1	HKD47.15	9,243,013	HKD76.06	7,811,453
Granted	HKD32.06	1,609,549	HKD30.69	5,309,205
Forfeited	HKD34.37	(789,039)	HKD82.85	(71,395)
Cancelled	–	–	HKD82.85	(3,806,250)
As of December 31	HKD45.74	10,063,523	HKD47.15	9,243,013
Exercisable as of December 31	HKD50.11	5,504,884	HKD57.95	3,221,431

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

35 Share-based payments (Continued)

(b) Share option scheme of the Group (Continued)

(ii) Outstanding share options

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

Grant Date	Expiry Date	Exercise price	Number of share option	
			December 31, 2023	December 31, 2022
July 12, 2021	July 11, 2031	HKD82.85	2,091,564	2,147,269
November 5, 2021	November 4, 2031	HKD53.14	1,786,539	1,786,539
August 18, 2022	August 17, 2032	HKD30.69	4,575,871	5,309,205
August 21, 2023	August 20, 2033	HKD32.06	1,609,549	–
Total			10,063,523	9,243,013
Weighted average remaining contractual life of options outstanding at end of year			8.25 years	9.21 years

The outstanding share options as of December 31, 2023 were divided into four or three tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a year from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(iii) Fair value of options

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

(c) Expected Retention Rate

The Group has to estimate the Expected Retention Rate at the end of the vesting periods of the RSUs and share options in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of December 31, 2023, the Expected Retention Rate of the Group had been assessed to be no lower than 92% (December 31, 2022: 92%).

36 Contingencies

The Group did not have any other material contingent liabilities as of December 31, 2023 (2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

37 Cash flow information

(a) Cash generated from operating activities

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Profit for the year	803,547	607,628
Adjustments for:		
Income tax expense	97,850	166,192
Compensation charges for post-combination services	56,936	56,936
Share-based compensation expenses	131,467	241,344
Depreciation of property, plant and equipment	33,378	21,414
Amortisation of intangible assets	182,689	261,206
(Gain)/loss on disposals of property, plant and equipment	(401)	1,546
Net (reversal of)/provision for impairment losses on financial assets	(40,591)	114,294
Provision for inventory obsolescence	45,213	39,805
Impairment provision for investments in associates and a joint venture	107,155	37,389
Share of net profit of investments accounted for using equity method	(204,979)	(198,971)
Loss on the disposal of a subsidiary	–	16,934
Interest income on bank deposits	(166,316)	(160,893)
Fair value (gain)/loss of investments in other financial assets at fair value through profit or loss	(61,330)	35,599
Fair value loss of investments in redeemable shares	67,178	494,389
Fair value loss/(gain) on contingent consideration payable	15,410	(96,730)
Interest expense	19,658	48,063
Foreign exchange (gains)/losses, net	(6,767)	5,922
Depreciation charge of right-of-use assets	81,956	95,124
Impairment loss on prepayments to directors and writers	9,522	23,556
Impairment loss of prepayment of production for television series and film rights	41,075	–
Impairment loss of television series and film rights	86,367	15,171
Gain from disposals of investments in associates	(40,416)	(53,767)
Impairment loss of intangible assets	44,255	–
Dilution gains on a deemed disposal	(12,413)	–
Changes in operating assets and liabilities:		
Decrease in trade and notes receivables	62,156	645,315
Increase in inventories	(28,602)	(180,393)
(Increase)/decrease in television series and film rights	(141,033)	135,309
Increase in prepayments, deposits and other assets	(85,952)	(403,292)
(Decrease)/increase in trade payables	(84,159)	87,081
Increase/(decrease) in deferred revenue	257,818	(52,947)
Decrease in other payables and accruals	(22,318)	(158,160)
Net cash provided by operating activities	1,248,353	1,845,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

37 Cash flow information (Continued)

(b) Non-cash investing and financing activities

During the year ended December 31, 2023 and 2022, non-cash investing and financing activities disclosed in other notes are as follows:

- acquisition of right-of-use assets – Note 17
- Issuance of ordinary shares as consideration for a business combination – Note 32

(c) Net debt reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings RMB'000	Interest payable RMB'000	Leases (current and non-current) RMB'000	Payables to financial investors in TV programs and film production RMB'000	Total RMB'000
As of January 1, 2023	417,876	49	200,100	408	618,433
Financing cash flows	(412,802)	(49)	(90,946)	(408)	(504,205)
Interest expense	–	–	9,668	–	9,668
New leases	–	–	109,326	–	109,326
Disposals of leases	–	–	(2,892)	–	(2,892)
Foreign exchange adjustments	4,926	–	2,847	–	7,773
As of December 31, 2023	10,000	–	228,103	–	238,103

	Borrowings (non-current) RMB'000	Borrowings (current) RMB'000	Interest payable RMB'000	Leases (current and non-current) RMB'000	Payables to financial investors in TV programs and film production RMB'000	Total RMB'000
As of January 1, 2022	382,542	792,776	1,579	274,423	15,124	1,466,444
Financing cash flows	–	(792,776)	(38,881)	(81,071)	(14,716)	(927,444)
Interest expense	–	–	37,351	10,712	–	48,063
New leases	–	–	–	2,001	–	2,001
Disposals of leases	–	–	–	(5,739)	–	(5,739)
Foreign exchange adjustments	35,334	–	–	(226)	–	35,108
Transfer	(417,876)	417,876	–	–	–	–
As of December 31, 2022	–	417,876	49	200,100	408	618,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 Subsidiaries and controlled structured entities

Particulars of the principal subsidiaries of the Group as of the date of these consolidated financial statements and as of December 31, 2023 are set out below:

Company name	Place of incorporation	Date of incorporation	Registered capital	Percentage of attributable equity interest	Principal activities and place of operation
Shanghai Yuewen Information Technology Co., Ltd. (“上海閱文信息技術有限公司”)	PRC	April 2, 2014	RMB1,560,396,056	100.00%	Online reading business, intellectual property operations and online advertising, PRC
Shanghai Xuanting Entertainment Information Technology Co., Ltd. (“上海玄霆娛樂信息科技有限公司”)	PRC	August 26, 2004	RMB108,000,000	100.00%	Online reading business, PRC
Tianjin Huawen Tianxia Book Co., Ltd. (“天津華文天下圖書有限公司”)	PRC	June 23, 2009	RMB10,204,100	100.00%	Physical book business, PRC
Shengyun Information Technology (Tianjin) Co., Ltd. (“盛雲信息技術(天津)有限公司”)	PRC	June 13, 2013	USD30,000,000	100.00%	Intellectual property management, PRC
Beijing Hongxiu Tianxiang Technology Development Co., Ltd. (“北京紅袖添香科技發展有限公司”)	PRC	March 20, 2006	RMB46,000,000	100.00%	Online reading business, PRC
Shanghai Hongwen Networking Technology Co., Ltd. (“上海宏文網絡科技有限公司”)	PRC	October 22, 2008	RMB1,260,699,688	100.00%	Online reading business, intellectual property operations and online advertising, PRC
New Classics Television Entertainment Investment Company Limited (“新麗電視文化投資有限公司”)	PRC	September 24, 2008	RMB50,000,000	100.00%	Television series and film production, PRC
New Classics Movie (Zhejiang) Company Limited (“新麗電影(浙江)有限公司”)	PRC	January 4, 2010	RMB10,000,000	100.00%	Television series and film production, PRC
Shanghai Yuewen Films Culture Communication Company Limited (“上海閱文影視文化傳播有限公司”)	PRC	January 24, 2017	RMB10,000,000	100.00%	Television series and film production, PRC
Yueting Information Technology (Shanghai) Co., Ltd. (“閱霆信息技術(上海)有限公司”)	PRC	May 27, 2008	USD100,000,000	100.00%	Intellectual property management, PRC
Cloudary Holdings Limited (“閱文文學有限公司”)	PRC	September 28, 2007	USD15,000,000	100.00%	Online reading business, PRC
Yueting Information Technology (Tianjin) Co., Ltd. (“閱霆信息技術(天津)有限公司”)	PRC	June 28, 2017	USD30,000,000	100.00%	Intellectual property management, PRC
Hainan Yuewen Information Technology Co., Ltd. (“海南閱文信息技術有限公司”)	PRC	August 10, 2020	RMB10,000,000	100.00%	Online reading business, PRC
Tianjin Yuewen Films Culture Communication Company Limited (“天津閱文影視文化傳播有限公司”)	PRC	May 30, 2018	RMB3,000,000	100.00%	Television series and film production, PRC

Note:

The English names of the subsidiaries represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Names of the major related parties	Nature of relationship
Tencent	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 (Shenzhen) Company Limited	Fellow subsidiary
Jinjiang	Joint venture of the Group
Sky Mutual Entertainment (Tianjin) Culture Communication Co., Ltd.	Joint venture of the Group
Chongqing Color Pencil Animation Design 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
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 Deep Blue Film Media Co., Ltd.	Associate of the ultimate holding company
Tibet Tongkan Future Film and Culture Media Co., Ltd.	Associate of the ultimate holding company
Guangzhou Tianwen Kadokawa Animation and Comics Co., Ltd.	Associate of the ultimate holding company
Beijing Muyuan Technology Co., Ltd	Associate of the ultimate holding company
Shanghai Linmon Picture Media Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39 Related party transactions (Continued)

The following transactions were carried out with related parties:

(a) Intellectual property operations and provision of advertising

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Fellow subsidiaries	1,759,390	1,793,185
Associates of the ultimate holding company (Note)	91,572	73,249
Associates of the Group	2,070	4,428
Joint ventures of the Group	–	4,717
	1,853,032	1,875,579

During the year ended December 31, 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

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Fellow subsidiaries	323,687	421,442
Associates of the ultimate holding company	65,213	59,222
Joint ventures of the Group	36,125	52,556
Associates of the Group	16,464	18,357
	441,489	551,577

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

Note:

For the related party transactions disclosed in Note 39, the associates of the ultimate holding company represented the companies that are associates of the Company's ultimate holding company Tencent but not the associate of the Group, whose related parties' transactions were disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39 Related party transactions (Continued)

(c) Interest income

	As of December 31,	
	2023 RMB'000	2022 RMB'000
A joint venture of the Group	192	–

(d) Loan lent to a related party

	As of December 31,	
	2023 RMB'000	2022 RMB'000
A joint venture of the Group	6,000	–

(e) Balances with related parties

	As of December 31,	
	2023 RMB'000	2022 RMB'000
<i>Trade receivables</i>		
Fellow subsidiaries (Note)	1,289,367	1,586,870
Associates of the ultimate holding company	37,251	42,732
Associates of the Group	48	1,371
	1,326,666	1,630,973

Note:

Trade receivables from fellow subsidiaries are mainly arising from the collection of payments from fellow subsidiaries for advertising, sales of adaption rights and scripts, and license of television series and animated series.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39 Related party transactions (Continued)

(e) Balances with related parties (Continued)

	As of December 31,	
	2023 RMB'000	2022 RMB'000
<i>Prepayments, deposits and other receivables</i>		
Fellow subsidiaries	540,122	450,319
Joint venture of the Group	202,332	40,392
Associates of the ultimate holding company	167	3,805
Associates of the Group	–	163
	742,621	494,679

Receivables due from related parties are unsecured, interest-free and repayable on demand. As of December 31, 2023, bad debt provision amounting to RMB39,050,000 (2022: RMB36,174,000) was made against receivables from related parties.

	As of December 31,	
	2023 RMB'000	2022 RMB'000
<i>Trade payables</i>		
Fellow subsidiaries	134,208	193,069
Joint ventures of the Group	79,394	51,693
Associates of the Group	2,666	5,437
Associates of the ultimate holding company	610	7,549
	216,878	257,748

	As of December 31,	
	2023 RMB'000	2022 RMB'000
<i>Other payables and accruals</i>		
Fellow subsidiaries	359,701	241,561
Associates of the ultimate holding company	28,176	39,316
Joint ventures of the Group	14,673	1,557
Associates of the Group	–	308
	402,550	282,742

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39 Related party transactions (Continued)

(f) Key management personnel compensations

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Salaries, wages and bonuses	13,688	12,268
Other social security costs, housing benefits and other employee benefits	144	18
Pension costs – defined contribution plans	121	26
Share-based compensation expenses	16,259	23,166
	30,212	35,478

40 Capital commitment

On December 11, 2023, the Group entered into an agreement with Tencent and several of its subsidiaries (together referred to as “the Sellers”), pursuant to which, the Group has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell (1) the Tencent Animation and Comics APP Platform and agreed number of works owned by the platform; (2) agreed number of animation, film and television series projects; and (3) 90% equity interests of Shanghai Michengzi Culture Communication Company Limited, which is a subsidiary of Tencent. The total consideration for the transaction was contracted at RMB600 million, which is subject to certain downward adjustments as specified in the agreement. The transaction had not been completed as of the date of approval of these financial statements.

41 Subsequent events

There was no material subsequent events during the period from December 31, 2023 to the approval date of these consolidated financial statements by the Board on March 18, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

42 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31,	
	2023 RMB'000	2022 RMB'000
Non-current assets		
Property, plant and equipment	2	2
Investments in subsidiaries	10,754,954	10,607,099
Prepayments, deposits and other assets	54,902	108,385
Right-of-use assets	147	170
Financial asset at fair value through other comprehensive income	4,071	8,009
	10,814,076	10,723,665
Current assets		
Prepayments, deposits and other assets	31,129	14,297
Amounts due from subsidiaries	3,299,578	3,244,559
Term deposits	–	4,556
Cash and cash equivalents	312,209	1,008,387
	3,642,916	4,271,799
Total assets	14,456,992	14,995,464
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	650	644
Shares held for RSU schemes	(16,647)	(18,766)
Share premium	16,556,037	16,466,666
Other reserves	1,461,127	1,263,239
Accumulated losses	(4,628,866)	(4,562,026)
Total equity	13,372,301	13,149,757
LIABILITIES		
Non-current liabilities		
Financial liabilities at fair value through profit or loss	247,830	490,613
	247,830	490,613
Current liabilities		
Lease liabilities	135	90
Other payables and accruals	581,583	972,842
Financial liabilities at fair value through profit or loss	255,143	382,162
	836,861	1,355,094
Total liabilities	1,084,691	1,845,707
Total equity and liabilities	14,456,992	14,995,464

The statement of financial position of the Company was approved by the Board of Directors on March 18, 2024 and was signed on its behalf.

Director

Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

42 Financial position and reserve movement of the Company (Continued)

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
As of January 1, 2023	1,263,239	(4,562,026)
Comprehensive income		
Loss for the year	–	(66,840)
Other comprehensive income		
– Currency translation differences	66,421	–
Total comprehensive loss for the year	66,421	(66,840)
Transaction with owners		
Share-based compensation expenses (Note 35)	131,467	–
Total transactions with owners recognised directly in equity for the year	131,467	–
As of December 31, 2023	1,461,127	(4,628,866)
	Other reserves RMB'000	Accumulated losses RMB'000
As of January 1, 2022	967,122	(4,548,449)
Comprehensive income		
Loss for the year	–	(13,577)
Other comprehensive income		
– Currency translation differences	54,773	–
Total comprehensive income for the year	54,773	(13,577)
Transaction with owners		
Share-based compensation expenses (Note 35)	241,344	–
Total transactions with owners recognised directly in equity for the year	241,344	–
As of December 31, 2022	1,263,239	(4,562,026)

DEFINITIONS

“2014 RSU Scheme” or “RSU Plan”	:	a restricted stock unit scheme by the Company adopted on December 23, 2014;
“2020 Restricted Share Unit Scheme”	:	a restricted share unit scheme of the Company adopted on May 15, 2020 as amended from time to time;
“2021 Share Option Plan” or “Share Option Plan”	:	the share option plan for Eligible Participants which was adopted by the Shareholders on May 24, 2021 as amended from time to time;
“2018 NCM Share Purchase Agreement”	:	the share purchase agreement entered the Founder into among the Company, Tencent Mobility, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 13, 2018, in relation to, among other things, the purchase of 100% equity interests of the NCM Holdings by the Company from the Vendors;
“Administrator”	:	the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board;
“AGM”	:	the forthcoming annual general meeting of the Company to be held on June 3, 2024;
“AI”	:	artificial intelligence;
“Articles of Association”	:	the amended and restated articles of association of the Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time;
“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Award(s)”	:	the restricted stock unit(s) granted under the RSU Plan;
“Award Agreement(s)”	:	the agreements evidencing the grant of the Awards;
“Board”	:	the board of Directors of the Company;
“Board Committees”	:	the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee of the Board of the Company;

DEFINITIONS

“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 as set out in Appendix C1 of the Listing Rules;
“China Reading HK”	:	China Reading (Hong Kong) Limited (中國閱讀(香港)有限公司), a limited liability company incorporated in Hong Kong on April 24, 2013, and our directly wholly-owned subsidiary;
“Cloudary”	:	Cloudary Corporation (formerly known as Shanda Literature Corporation), an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 25, 2011, and our directly wholly-owned subsidiary;
“Cloudary HK”	:	Cloudary Holdings Limited (閱文文學有限公司, formerly known as Shanda Literature Limited), a limited liability company incorporated in Hong Kong on September 28, 2007, and our indirectly wholly-owned subsidiary;
“Chief Executive Officer” or “CEO”	:	the chief executive officer of the Company;
“Company”, “our Company”, “the Company” or “China Literature”	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
“connected person(s)”	:	has the meaning ascribed to it under the Listing Rules;
“Consolidated Affiliated Entities”	:	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries;
“Continuing Connected Transactions”	:	the continuing connected transactions of the Group during the year ended December 31, 2023;

DEFINITIONS

“Contractual Arrangements”	:	the series of contractual arrangements entered into by, among others, our Company, the WFOEs and the PRC Holdcos, namely Wen VIE and NCM VIE;
“Contractual Arrangements Date”	:	in the case of the Wen VIE, March 22, 2022; and in the case of the NCM VIE, August 13, 2018;
“Controlling Shareholders”	:	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Tencent, THL A13, Qinghai Lake and Tencent Mobility;
“Ding Dong-D Limited”	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
“Director(s)”	:	the director(s) of our Company;
“Equity Pledge Agreements”	:	the equity pledge agreements entered into among the WFOE(s), the Registered Shareholder(s) and the PRC Holdco(s) on the Contractual Arrangements Date, where the Registered Shareholder(s) agreed to pledge all their/its respective equity interests in the PRC Holdco(s) that they/it owned, including any interest or dividend paid for the equity interests, to the WFOE(s) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements;
“Exclusive Business Cooperation Agreements”	:	the exclusive business cooperation agreements that each of the PRC Holdco(s) entered into with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their/its exclusive provider of technical support, consultation and other services;
“Exclusive Option Agreements”	:	the exclusive option agreements entered into among the WFOE(s), the PRC Holder(s) and the Registered Shareholder(s) on the Contractual Arrangements Date, pursuant to which, the WFOE(s) have the rights to require the Registered Shareholders to transfer any or all their/its equity interests in the PRC Holdco(s) to the WFOE(s) and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred; and in the case of the NCM VIE, the lowest price as permitted by PRC laws);

DEFINITIONS

“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HKD”	:	the lawful currency of Hong Kong;
“IEG”	:	interactive entertainment group;
“IP”	:	intellectual property;
“IP Cooperation CCTs”	:	the cooperation between Shanghai Yueting and Tencent Computer under the IP Cooperation Framework Agreement;
“IPO”	:	initial public offering;
“JPY”	:	the lawful currency of Japan;
“Linzi Tencent”	:	Linzi Tencent Technology Company Ltd. (林芝騰訊科技有限公司), an indirect subsidiary of Tencent established in the PRC on October 26, 2015, the equity interest of which is ultimately held by PRC nationals;
“Listing Date”	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Literary Work”	:	an original literary work, being the subject matter in relation to the license granted by Shanghai Yuewen to Cangqiong Entertainment pursuant to the IP License Agreement;
“Litong”	:	Shenzhen Litong Industry Investment Fund Company Limited (深圳市利通產業投資基金有限公司), a company established in the PRC on August 5, 2013, which is a shareholder of each of the PRC Holdcos under the Wen VIE and a subsidiary of Tencent;

DEFINITIONS

“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;
“Negative List”	:	the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version);
“New Classics Media” or “NCM”	:	New Classics Media Holdings Limited, previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series;
“New Classics Media Corporation”	:	New Classics Media Corporation (新麗傳媒集團有限公司), a company established in the PRC on February 7, 2007, having its registered address at C1-018-A, Hengdian Film and Television Industry Experimental Zone, Zhejiang;
“New Intergroup Agreements” and each a “New Intergroup Agreement”	:	the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our PRC Holdcos and any member of our Group;
“Online Platform Cooperation CCTs”	:	the cooperation entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) under the Online Platform Cooperation Framework Agreement;
“our literature platform” or “our platform”	:	all of online products, channels and content operated by China Literature, including but not limited to mobile apps, WAPs, websites and various channels;

DEFINITIONS

“Powers of Attorney”	:	the powers of attorney executed by the Registered Shareholder(s) on the Contractual Arrangements Date, pursuant to which the Registered Shareholder(s) irrevocably appointed the WFOE(s) and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact’s prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdco(s);
the “PRC” or “China”	:	the People’s Republic of China;
“PRC Holdcos”	:	in the case of the Wen VIE, Shanghai Hongwen and Shanghai Yuewen; and in the case of the NCM VIE, New Classics Media Corporation;
“Prospectus”	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
“Qinghai Lake”	:	Qinghai Lake Investment Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands on July 1, 2014 as an investment vehicle and a wholly-owned subsidiary of Tencent;
“Qisheng Culture Communication”	:	Qisheng Culture Communication (Tianjin) Co., Ltd. (奇盛文化傳播(天津)有限公司), a company established in the PRC on July 3, 2014, and our indirectly wholly-owned subsidiary;
“Registered Shareholders”	:	in the case of the Wen VIE, the registered shareholders of the PRC Holdcos, namely Litong, which holds the entire equity interests of the PRC Holdcos; and in the case of the NCM VIE, the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, which own the PRC Holdco as to 40.0%, 6.7%, 34.0%, 15.3% and 4.1%;
“Relevant Period” or “Reporting Period”	:	the year ended December 31, 2023;
“Restricted Period”	:	the restricted period of RSUs which commences on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement;
“Retained Tencent Group”	:	Tencent and its subsidiaries, excluding our Group;

DEFINITIONS

“Retained Tencent Group Platforms”	:	the self-operated channels on Tencent platforms that distribute our literary works through under the Online Platform Cooperation CCTs;
“RMB”	:	the lawful currency of the PRC;
“RSU(s)”	:	restricted stock unit(s);
“RSU Plan”	:	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014;
“Service Provider”	:	any person who provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group. For the avoidance of doubt, Service Providers should exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions. They should also exclude professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity;
“Service Provider Sublimit”	:	a maximum number of Shares allowed to be issued to the Service Providers under Share Schemes of the Group;
“SFO”	:	the Securities and Futures Ordinance;
“SGD”	:	the lawful currency of Singapore;
“Shanghai Hongwen”	:	Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008, and one of the PRC Holdcos;
“Shanghai Qiwen”	:	Shanghai Qiwen Information Technology Co., Ltd. (上海啟聞信息技術有限公司), a company established in the PRC on April 16, 2013 and one of our Consolidated Affiliated Entities;
“Shanghai Xuanting”	:	Shanghai Xuanting Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息技術有限公司), a company established in the PRC on August 26, 2004 and one of our Consolidated Affiliated Entities;
“Shanghai Yuechao”	:	Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and our indirectly wholly-owned subsidiary;

DEFINITIONS

- “Shanghai Yuehuo” : Shanghai Yuehuo Information Technology Co., Ltd. (上海閱活信息科技有限 公司), a company established in the PRC on November 11, 2016 and one of our Consolidated Affiliated Entities;
- “Shanghai Yueting” : Yueting Information Technology (Shanghai) Co., Ltd. (閱靈信息技術 (上海) 有限 公司), previously known as Shengting Information Technology (Shanghai) Co., Ltd.), a company established in the PRC on May 27, 2008, and our indirectly wholly-owned subsidiary;
- “Shanghai Yuewen” : Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限 公司), a company established in the PRC on April 2, 2014, and one of our PRC Holdcos;
- “Share(s)” : ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
- “Shareholders” : holder(s) of our Share(s);
- “Share Scheme(s)” : share award scheme(s) and/or share option scheme(s) involving issuance of new Shares adopted and to be adopted by the Company from time to time, including the 2020 Restricted Share Unit Scheme and the 2021 Share Option Plan;
- “Shengyun Information Technology” : Shengyun Information Technology (Tianjin) Co., Ltd. (盛雲信息技術 (天津) 有限 公司), a company established in the PRC on June 13, 2013, and our indirectly wholly-owned subsidiary;
- “Shiji Kaixuan” : Shenzhen Shiji Kaixuan Technology Limited (深圳市世紀凱旋科技有 限公司), an indirect subsidiary of Tencent incorporated with limited liability in PRC in January 13, 2004, the equity interest of which is held by PRC nationals;
- “Sogou” : Sogou Inc., a company incorporated in the Cayman Islands, a subsidiary of Tencent and a connected person of the Company;
- “Sogou Group” : certain subsidiaries or variable interest entities of Sogou, including Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京 搜狗信息服務有限 公司), Beijing Sogou Network Technology Co., Ltd. (北京 搜狗網絡技術有限 公司), Tianjin Sogou Network Technology Co., Ltd. (天津 搜狗網絡技術有限 公司), Chengdu Easypay Technology Co., Ltd. (成都 吉易付科技有限 公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京 世紀思速科技有限 公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息 技術有限 公司);

DEFINITIONS

“Sogou Technology”	:	Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Sogou;
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Supplemental SPA Deed”	:	the supplemental deed entered into between the Company, Mr. Cao Huayi, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 27, 2020 in relation to, among others the amendment of the 2018 NCM Share Purchase Agreement;
“Tencent”	:	Tencent Holdings Limited, the Controlling Shareholder, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700);
“Tencent Animation and Comics”	:	Shenzhen Tencent Animation and Comics Company limited (深圳市騰訊動漫有限公司), a company established in the PRC on September 19, 2006, and its relevant associates;
“Tencent Computer”	:	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent;
“Tencent Group”	:	Tencent and its subsidiaries from time to time, including our Group;
“Tencent Mobility”	:	Tencent Mobility Limited, a company incorporated with limited liability in Hong Kong, a wholly owned subsidiary of Tencent and a connected person of the Company;
“Tencent Pictures”	:	Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary and associate of Tencent and a connected person of the Company;
“Tencent Shanghai”	:	Tencent Technology (Shanghai) Company Limited (騰訊科技(上海)有限公司), a company established in the PRC on July 23, 2008 and a wholly-owned subsidiary of Tencent;
“Tencent Technology”	:	Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司), a company established in the PRC on February 24, 2000 and a wholly-owned subsidiary of Tencent;

DEFINITIONS

“Tenpay”	:	Tenpay Payment Technology Co., Ltd. (財付通支付科技有限公司), a company established in the PRC and a subsidiary of Tencent Computer;
“THB”	:	Thai Baht, the lawful currency of Thailand;
“THL A13”	:	THL A13 Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands as an investment vehicle on February 1, 2013 and a wholly-owned subsidiary of Tencent;
“USD”	:	the lawful currency of the United States;
“WFOE(s)”	:	in the case of the Wen VIE, Shanghai Yueting and Shanghai Yuechao, and in the case of the NCM VIE, Xinli Media;
“Xiaoxiang College”	:	Xiaoxiang College (Tianjin) Culture Development Co., Ltd. (瀟湘書院(天津)文化發展有限公司), a company established in the PRC on June 8, 2010 and one of our Consolidated Affiliated Entities;
“Xinli Media”	:	Xinli (Tianjin) Media Technology Co., Ltd. (新麗(天津)傳媒科技有限公司), a company incorporated with limited liability in PRC and an indirect wholly owned subsidiary of New Classics Media;
“Xishi Investment”	:	Shanghai Xishi Investment Management Enterprise (Limited Partnership) (上海喜詩投資管理企業(有限合夥)), a limited partnership established in PRC on March 10, 2011, the limited partnership interest of which were held by the Mr. Cao Huayi and the individual shareholders of the X-Poem Limited who are PRC nationals;
“X-Poem Limited”	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands; and
“Yuwen Film”	:	Shanghai Yuwen Film and Television Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司), one of the Consolidated Affiliated Entities of the Company, and a company established in the PRC with limited liability.

Notes:

For ease of reference, the names of the PRC established companies or entities have been included in this annual report in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

