

China Literature

2021 Interim Results

August 16, 2021



Disclaimer

This presentation contains forward-looking statements relating to the industry and business outlook, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this presentation. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in the Company's other public disclosure documents on its corporate website.

Furthermore, this presentation also contains statements based on the Company's management accounts, which have not been audited by the Auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

2021 Interim Results Summary

IFRS Measures

- **Revenues** up **33.2%** YoY from RMB3.3 billion to **RMB4.3 billion (USD672.1 million¹)**
- **Gross profit** up **32.2%** YoY from RMB1.7 billion to **RMB2.3 billion (USD354.2 million)**
- **Operating profit** was **RMB1.3 billion (USD198.8 million)**, as compared to operating loss of RMB3.6 billion in 1H20
- **Net profit to shareholders** was **RMB1.1 billion (USD167.6 million)**, as compared to net loss to shareholders of RMB3.3 billion in 1H20

Non-IFRS Measures

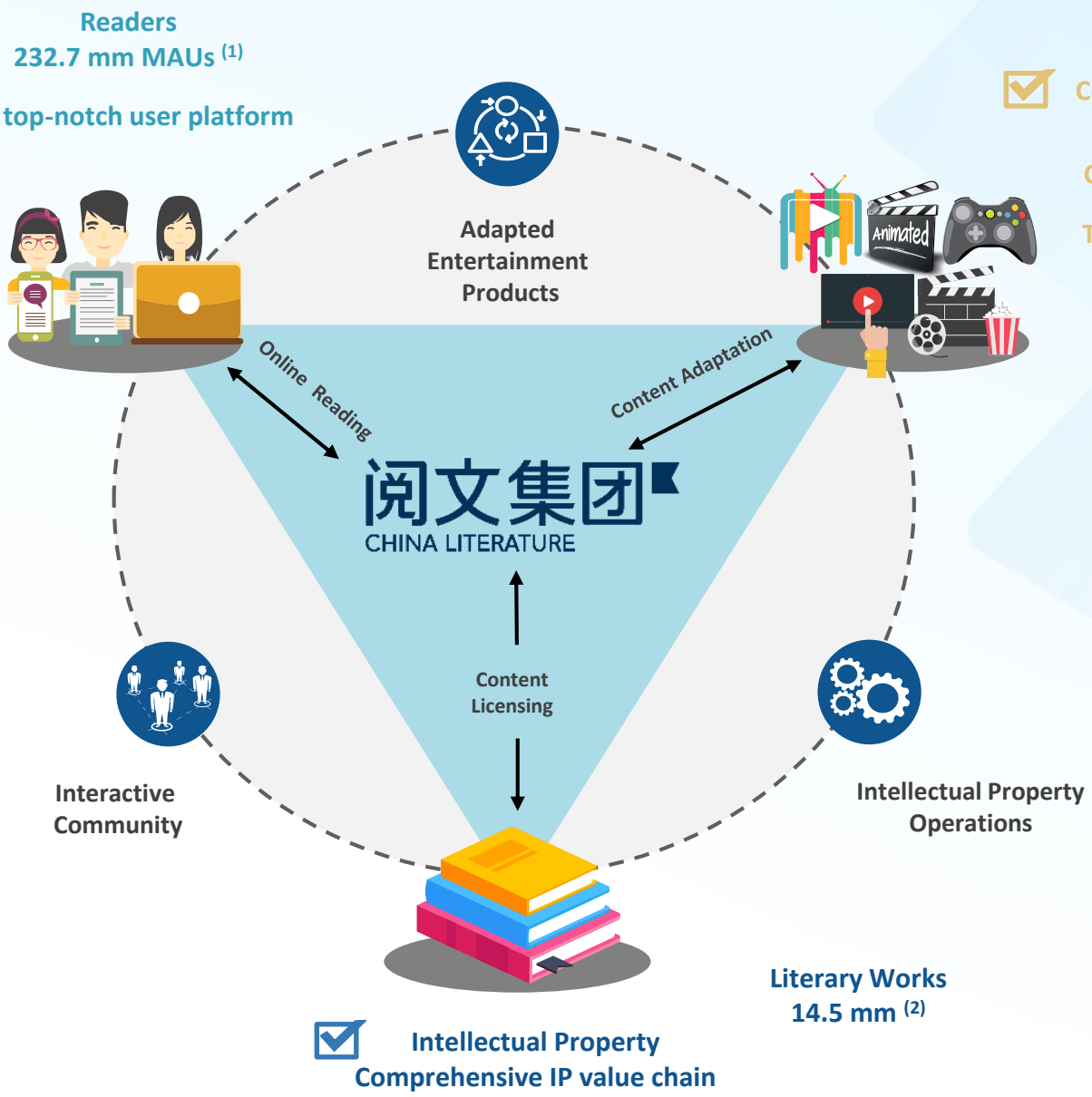
- **Non-IFRS operating profit** was **RMB641.5 million (USD99.3 million)**, as compared to non-IFRS operating loss of RMB56.7 million in 1H20
- **Non-IFRS net profit to shareholders** was **RMB665.0 million (USD102.9 million)**, as compared to RMB21.7 million in 1H20

User Base

- **Total MAU** increased by **3.7%** HoH to **232.7 million** and approximately the same YoY
- Average **DAU for free reading channels** reached **13 million** for June 2021

Note:
(1) Figures stated in USD are based on USD1 to RMB6.4601.

Continued Expansion of Online Reading and IP Ecosystem



- Total writers increased from 8.9 mm as of June 30, 2020 to **9.4 mm** as of June 30, 2021. Total works increased from 13.4 mm as of June 30, 2020 to **14.5 mm** as of June 30, 2021
- Around **18 billion** Chinese characters were added in 1H21

Notes:
(1) Stands for average monthly active users during 1H21.
(2) Figures are as of June 30, 2021.

Business Highlights in 1H21

Content Upgrades:

- 17 of the top 20 online literary works originated on China Literature's platforms (source: Baidu search rankings in June 2021)
- Greater numbers of young writers joined our platform with excellent results
 - ✓ Generation Z writers accounted for 80% of new writers in 1H21
 - ✓ Post-90s writers created 57% of Top 100 bestselling new titles and accounted for 54% of newly added Platinum and Phenomenal Writers in 1H21
- Hosted a contemporary-themed writing contest
 - ✓ Promoted high-quality works that convey positive social values
 - ✓ Drove healthy development of the online literature industry
- The 5th China Publication Government Awards
 - ✓ Great Power Heavy Industry (大国重工) was award Outstanding Online Publication
 - ✓ China Literature was awarded Outstanding Publisher

Platform Upgrades:

- Further expanded free-to-read business, 13 million average DAU for June 2021
- Further improved reading community and user engagement
 - ✓ 220 million paragraph comments, 1.1 million user-generated audio recordings for texts, 43 thousand extra chapters in audio and video formats published by writers
 - ✓ 120+ literary works each has 1+ million user comments

Ecosystem Upgrades:

- **IP metamorphosis-stage 1:**

To convert literary IP into media-rich products

- ✓ Comics: 70+ literary works have been adapted into comics and released on Tencent Comics
- ✓ Animation: 50+ animation projects in the pipeline
- ✓ Film and TV drama: China Literature Pictures-New Classics Media-Tencent Pictures partnership continued to work closely, focusing on serial development of premium IP
- ✓ Game: High-quality IPs licensed to leading game developers, such as Lord of the Mysteries (诡秘之主), A Record of a Mortal's Journey to Immortality (凡人修仙传), and My Heroic Husband (赘婿)

- **IP metamorphosis-stage 2:**

- To enable premium IP / characters to walk out of connected screens and digital devices into every consumer's everyday life in the form of various types of merchandises and services
- Intends to build a symbiotic relationship with upstream and downstream partners to explore new opportunities, such as IP licensing in consumer products, fashion toys, and offline businesses

- **IP metamorphosis-stage 3:**

- IP immortality: to create an IP that can grow together with audiences, bearing a unique timestamp from its date of creation and evolving over time
- The relationship between IP and consumers is interactive, intimate, enduring, and eventually inseparable hence invaluable

Business Highlights in 1H21

Top-Tier Titles Released in 1H21:

• Drama Series:

- ✓ My Heroic Husband (赘婿): No. 1 on Enlightent's web series playlist during broadcast
- ✓ Soul Land (斗罗大陆): No. 1 on Tencent Video's hot search list & TV series list during broadcast
- ✓ The Rebel (叛逆者): No. 1 on Enlightent's TV series & Guduo's hot list for TV series during broadcast, No.1 in terms of viewership during its specific broadcast time slots on TV stations nationwide for 20 consecutive days, 8.3 (out of 10) on Douban

• Film:

- ✓ Hi, Mom (你好李焕英): RMB5.4 bn box office, 2nd-highest ranking box office sales in the history of China's film industry

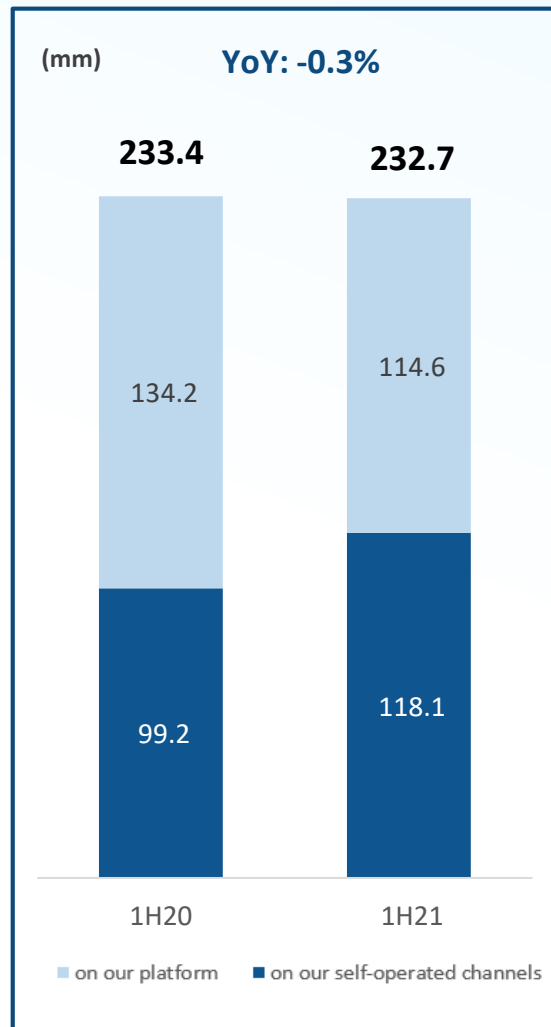
• Animations:

- ✓ Battle Through the Heavens (斗破苍穹) Season 4: 1.9 bn video views, 7.8 (out of 10) on Douban

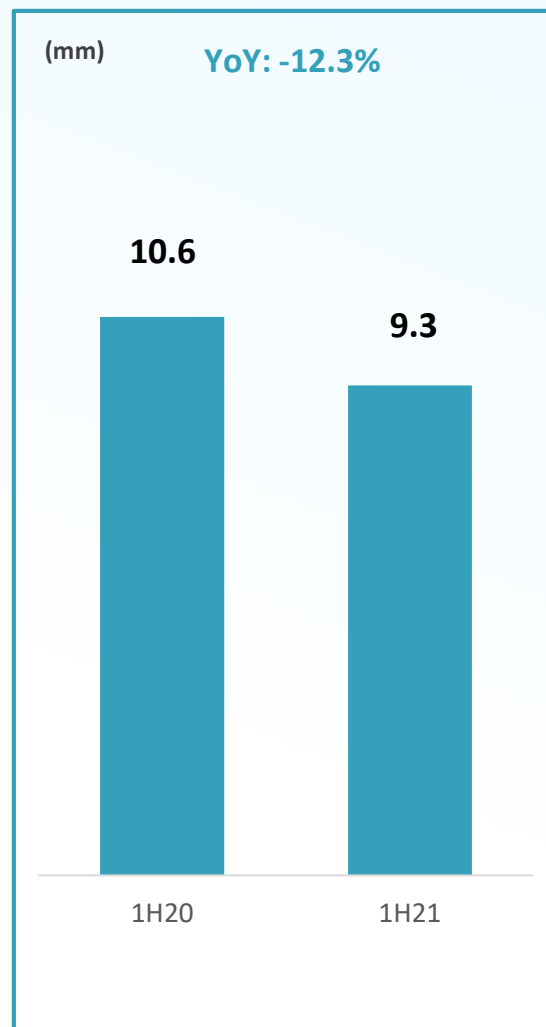


Financials: Key Operating Metrics

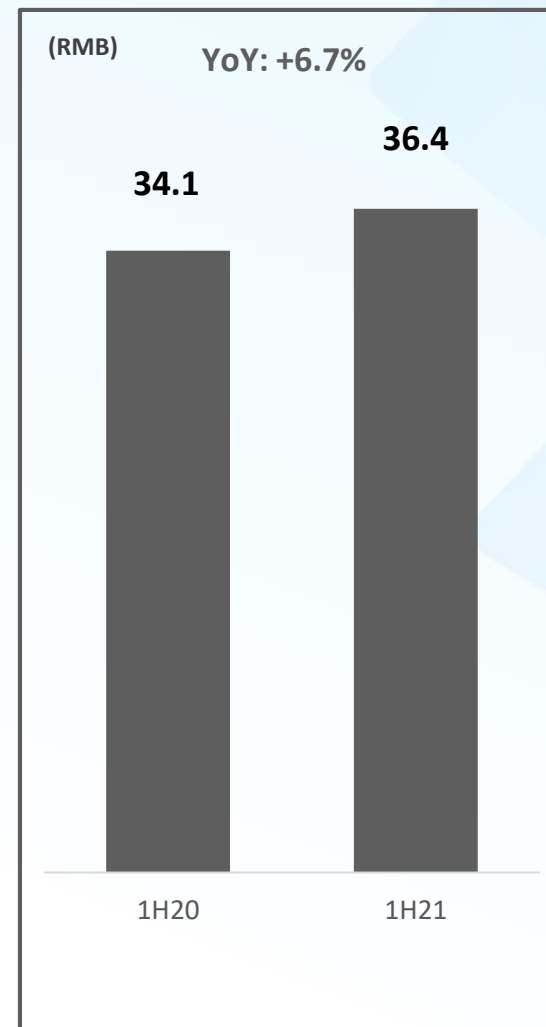
MAUs ⁽¹⁾



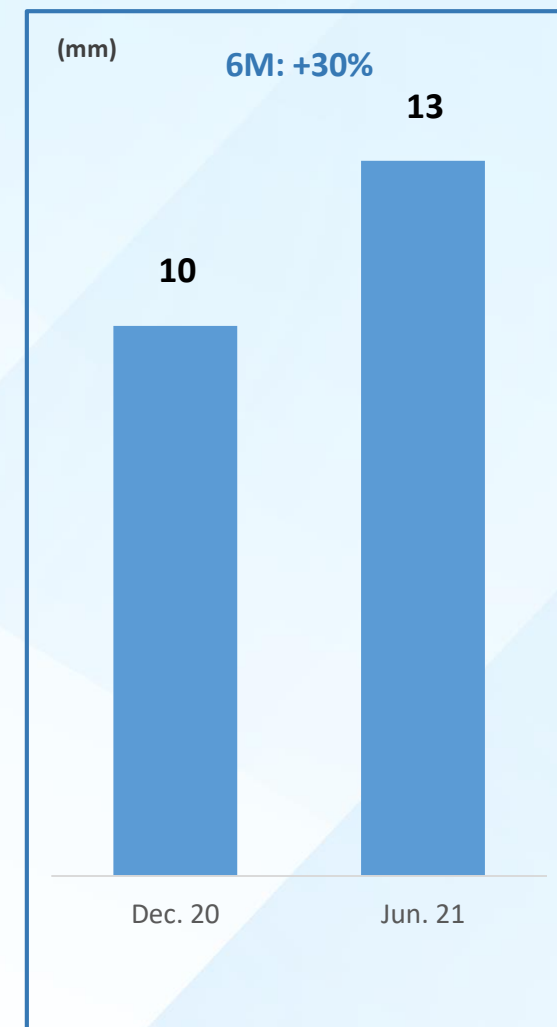
MPUs for Paid Reading ⁽²⁾



Monthly ARPU for Paid Reading ⁽³⁾



DAUs for Free Reading ⁽⁴⁾



Notes:

- (1) Average MAU is calculated as the average of MAUs for each calendar month during the respective year or period, on our platform and our self-operated channels on partner distribution platforms.
- (2) Average MPU is calculated as the average of MPUs for each calendar month during the respective year or period, on our platform and our self-operated channels on partner distribution platforms.
- (3) Average monthly ARPU is calculated as online reading revenue on our platform and self-operated channels divided by average MPUs during the period, then divided by the number of months during the period.
- (4) Average DAU is calculated as the average of DAUs for each day during the respective month or period on our self-operated channels on Tencent products.

Financials: Income Statement

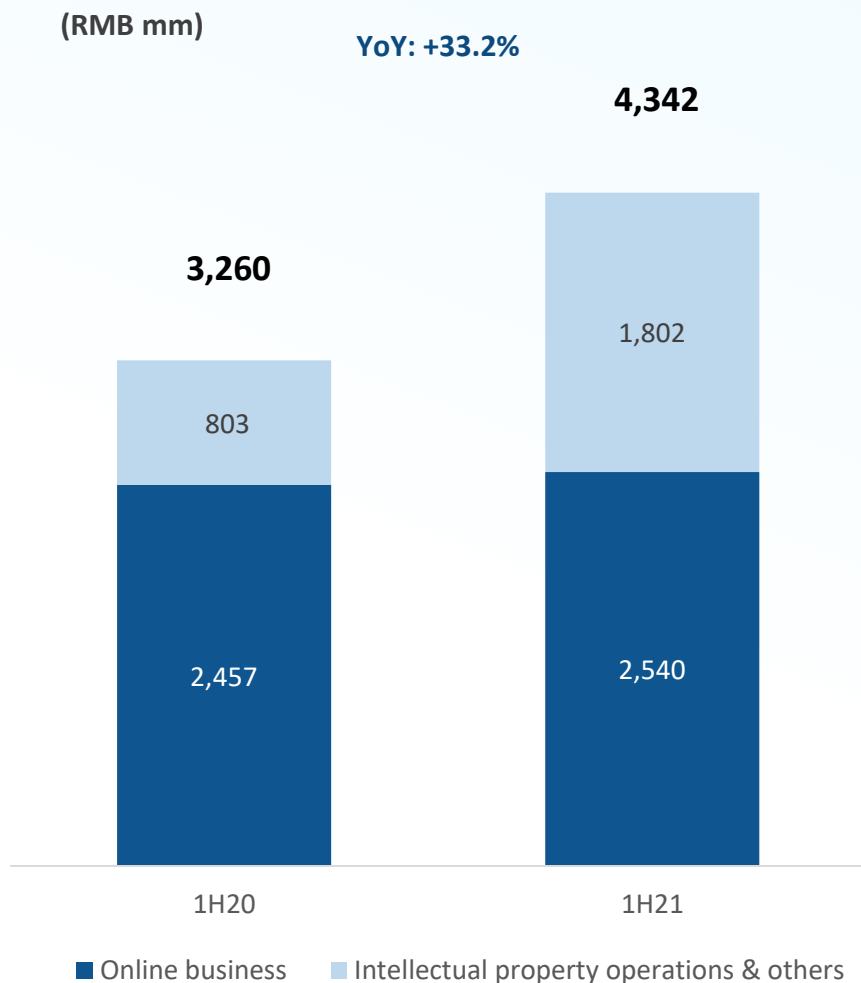
RMB'000	1H20	1H21	YoY
Revenues	3,260,206	4,342,146	33.2%
Cost of revenues	(1,528,894)	(2,054,081)	34.4%
Gross profit	1,731,312	2,288,065	32.2%
Interest income	62,048	60,617	(2.3%)
Other gains/(losses), net ⁽¹⁾	(3,529,736)	901,146	N/A
Selling and marketing expenses	(1,270,264)	(1,348,209)	6.1%
General and administrative expenses	(350,665)	(635,087)	81.1%
Net reversal of/(provision for) impairment losses on financial assets	(198,258)	17,468	N/A
Operating profit/(loss)	(3,555,563)	1,284,000	N/A
Finance costs	(38,080)	(34,561)	(9.2%)
Share of net profit of associates and joint ventures	81,827	115,939	41.7%
Income tax (expense)/benefit	201,291	(284,428)	N/A
Net profit/(loss) to shareholders	(3,295,874)	1,082,742	N/A
Non-IFRS net profit to shareholders	21,679	664,989	2,967.4%

Note:

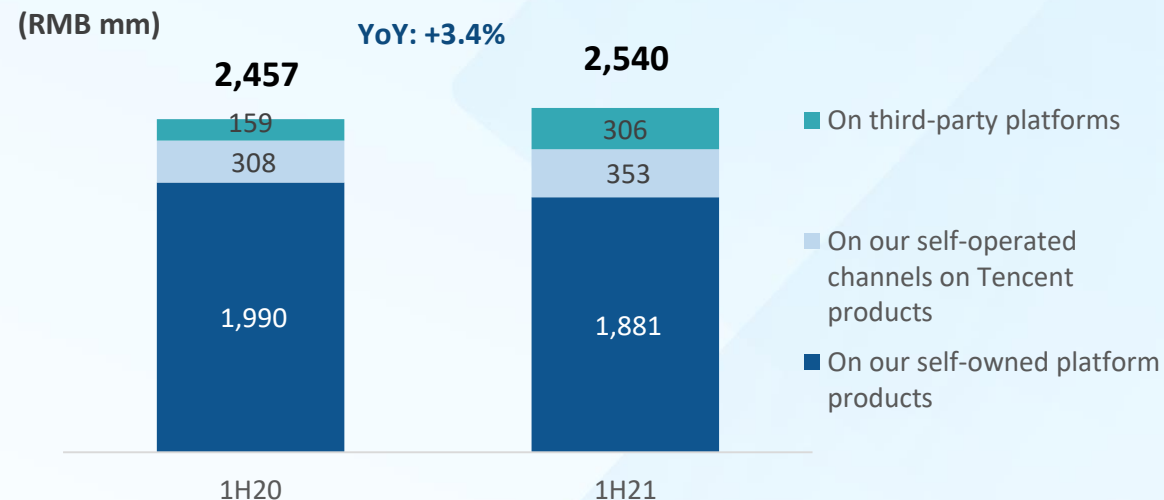
(1) The other gains in 1H21 consisted mainly of i) a gain of RMB1,076.8 million related to the sale of our equity interest in Lazy Audio, ii) gains of RMB134.0 million on disposal of certain intangible assets, and iii) fair value gains of RMB55.0 million resulting from increased valuations of investee companies. These gains were partially offset by a fair value loss of RMB383.2 million due to a change in fair value of consideration liabilities related to the acquisition of New Classics Media.

Financials: Revenue Structure

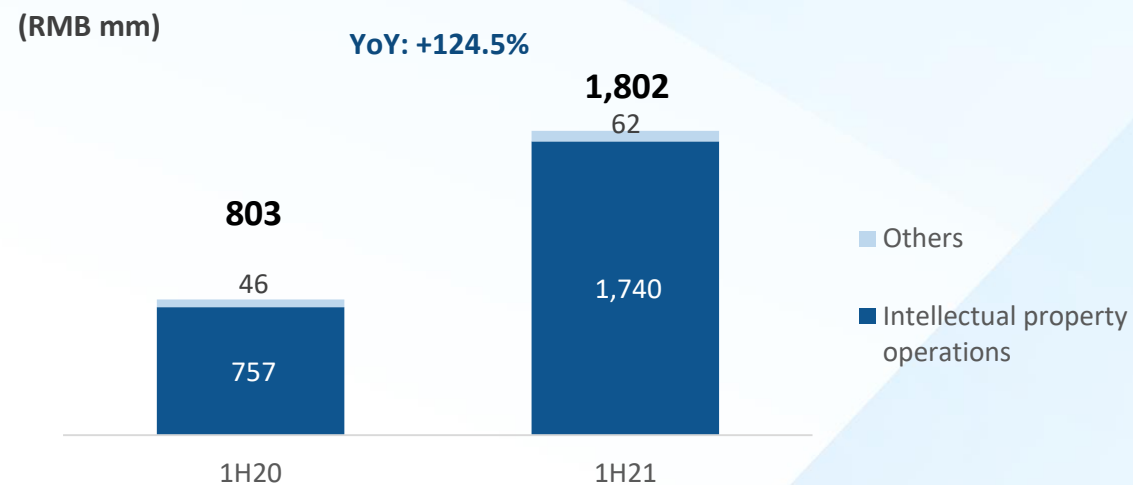
Revenues by Segment ⁽²⁾



Online Business Revenues Breakdown ⁽¹⁾⁽²⁾



Intellectual Property Operations & Others Revenues Breakdown ⁽¹⁾⁽²⁾



Note:

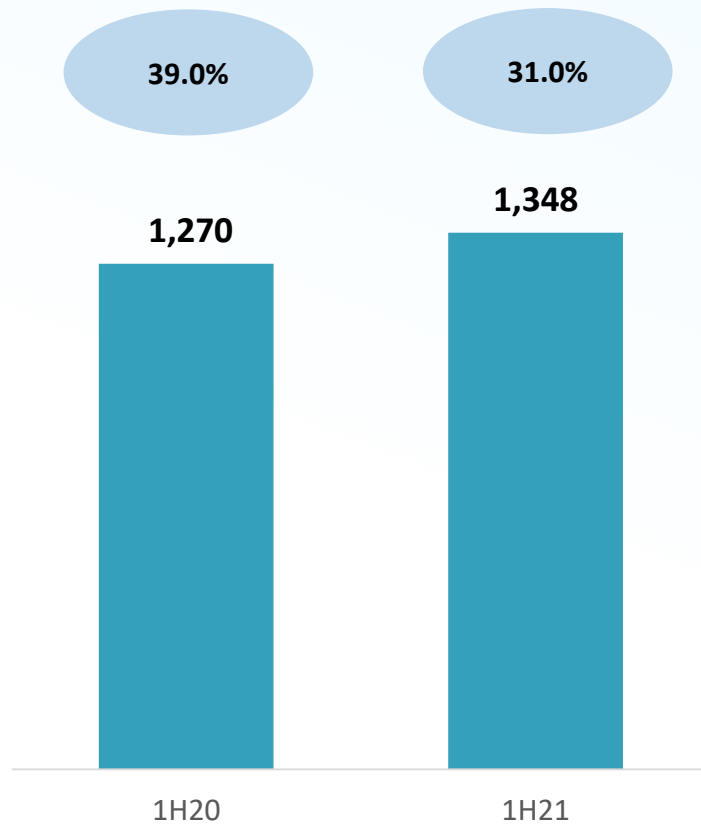
(1) Starting from January 1, 2021, revenues from online audio books and online comic content provided via Tencent and third-party platforms have been reclassified from "online business" segment to "intellectual property operations and others" segment to better reflect the Company's current businesses.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

(2) Certain figures have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures shown in the breakdown items.

Financials: Operating Expenses

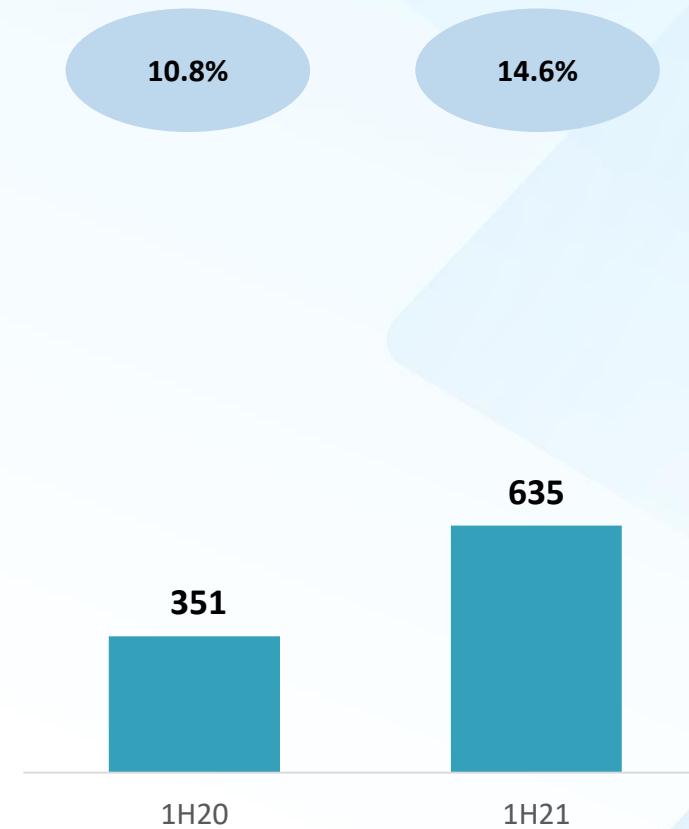
Selling & Marketing Expenses

as % of total revenue, total amount in RMB mm



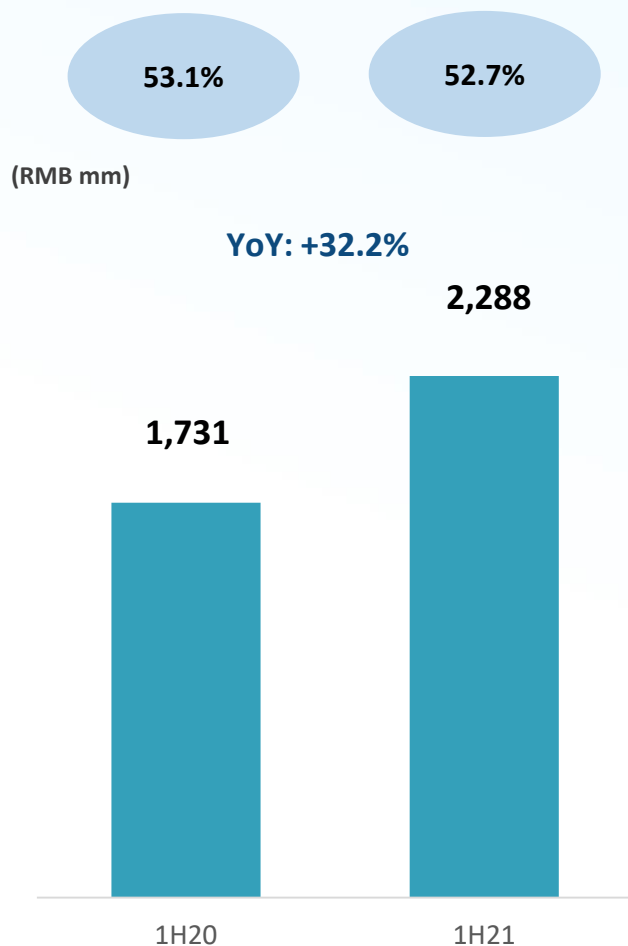
General & Administrative Expenses

as % of total revenue, total amount in RMB mm

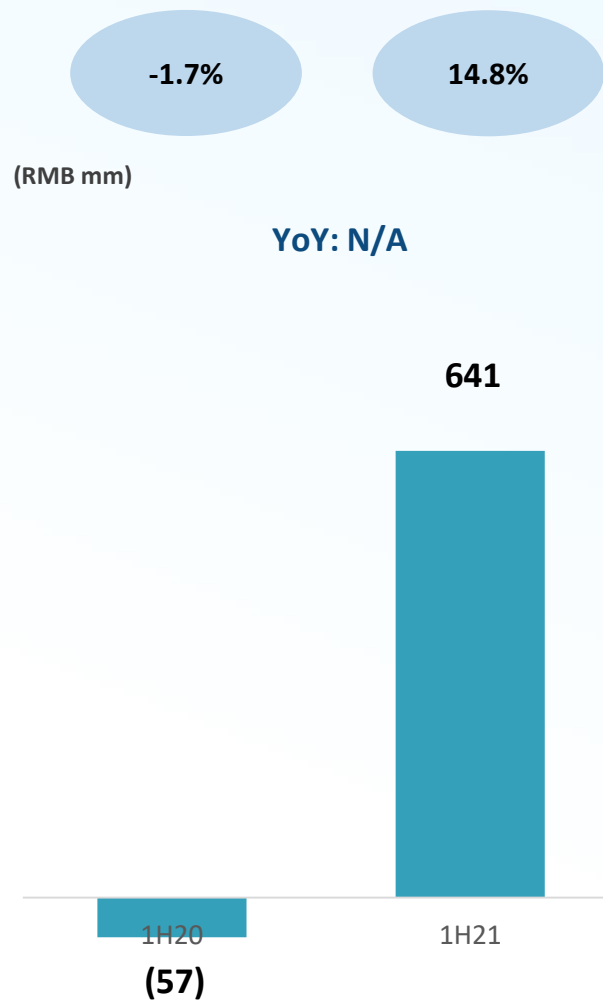


Financials: Key Profitability Metrics

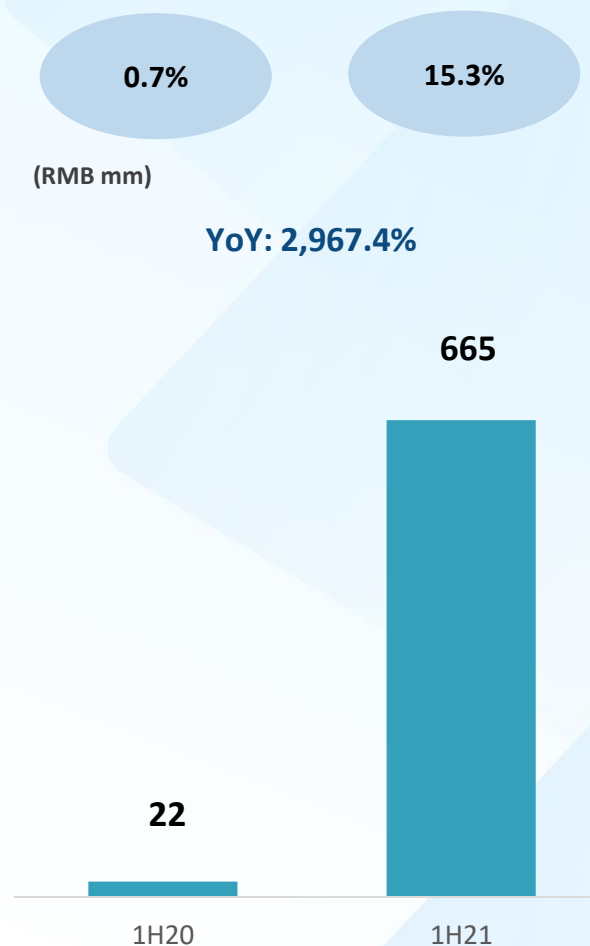
Gross Profit and Gross Margin



Non-IFRS Operating Profit and Operating Margin⁽¹⁾



Non-IFRS Net Profit to Shareholders and Net Profit to Shareholders Margin⁽¹⁾



Note:

(1) Figures under Non-IFRS measures.

Financials: Non-IFRS Profitability

(RMB'000)	1H20	1H21	YoY
EBITDA	59,585	626,859	952.0%
<i>Margin %</i>	<i>1.8%</i>	<i>14.4%</i>	
Adjusted EBITDA ⁽¹⁾	17,117	708,887	4,041.4%
<i>Margin %</i>	<i>0.5%</i>	<i>16.3%</i>	
Operating profit/(loss)	(3,555,563)	1,284,000	N/A
<i>Margin %</i>	<i>(109.1%)</i>	<i>29.6%</i>	
Non-IFRS operating profit/(loss) ⁽²⁾	(56,662)	641,460	N/A
<i>Margin %</i>	<i>(1.7%)</i>	<i>14.8%</i>	
Net profit/(loss) to shareholders	(3,295,874)	1,082,742	N/A
<i>Margin %</i>	<i>(101.1%)</i>	<i>24.9%</i>	
Non-IFRS net profit to shareholders ⁽³⁾	21,679	664,989	2,967.4%
<i>Margin %</i>	<i>0.7%</i>	<i>15.3%</i>	

Notes:

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

(2) Non-IFRS operating profit/(loss) is defined as operating profit/(loss) for the period adjusted by share-based compensation, net (gain)/loss from investments and acquisitions, and amortization of intangible assets resulting from acquisitions.

(3) Non-IFRS net profit to shareholders is defined as net profit/(loss) to shareholders adjusted by share-based compensation, net (gain)/loss from investments and acquisitions, amortization of intangible assets resulting from acquisitions, and related tax effect.

Thank You

