



阅文集团

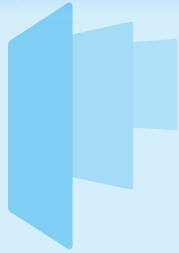
China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772



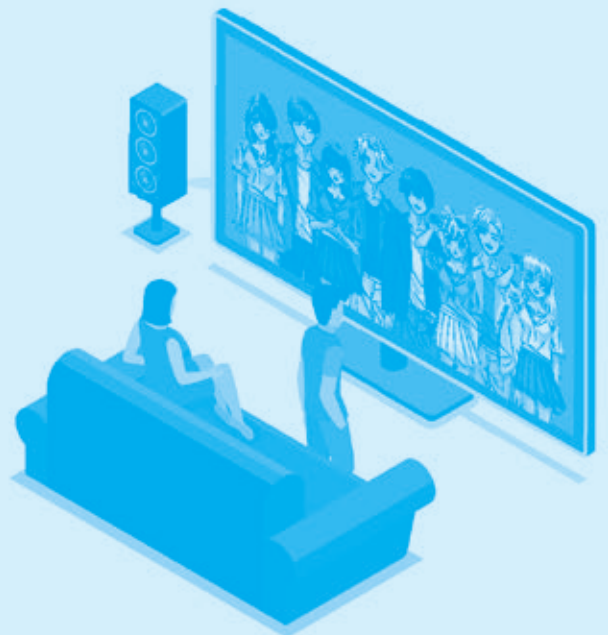
2021 INTERIM REPORT



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Board of Directors

Executive Directors

Mr. Cheng Wu (*Chief Executive Officer*)

Mr. Hou Xiaonan (*President*)

Non-executive Directors

Mr. James Gordon Mitchell (*Chairman*)

Mr. Cao Huayi

Mr. Cheng Yun Ming Matthew

Mr. Zou Zhengyu

(*appointed on May 24, 2021*)

Mr. Wu Wenhui (*Vice-Chairman*)

(*retired on April 26, 2021*)

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Ms. Leung Sau Ting Miranda

Mr. Liu Junmin

Audit Committee

Ms. Yu Chor Woon Carol (*Chairman*)

Ms. Leung Sau Ting Miranda

Mr. Cheng Yun Ming Matthew

Remuneration Committee

Ms. Leung Sau Ting Miranda (*Chairman*)

Ms. Yu Chor Woon Carol

Mr. Cheng Wu

Nomination Committee

Mr. James Gordon Mitchell (*Chairman*)

Ms. Yu Chor Woon Carol

Mr. Liu Junmin

Strategy and Investment Committee

Mr. Cheng Wu (*Chairman*)

Mr. James Gordon Mitchell

Mr. Hou Xiaonan

Mr. Zou Zhengyu (*appointed on May 24, 2021*)

Mr. Wu Wenhui (*retired on April 26, 2021*)

Authorized Representatives

Mr. Cheng Wu

Ms. Cheng Pui Yan

Joint Company Secretaries

Ms. Xu Lan

Ms. Cheng Pui Yan

Legal Advisors

As to Hong Kong laws:

Clifford Chance

27/F, Jardine House

One Connaught Place

Hong Kong

As to Cayman Islands laws:

Maples and Calder (Hong Kong) LLP

26th Floor, Central Plaza,

18 Harbour Road,

Wanchai, Hong Kong

Auditor

PricewaterhouseCoopers

Certified Public Accountants

22/F, Prince's Building

Central

Hong Kong

Registered Office

The offices of Maples Corporate Services Limited

PO Box 309, Ugland House

Grand Cayman KY1-1104

Cayman Islands

Head Office and Principal Place of Business in China

Block 6, No. 690 Bi Bo Road

Pudong Xinqu

Shanghai

PRC

Principal Place of Business in Hong Kong

Room 1503-04
ICBC Tower
3 Garden Road, Central
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Share Registrar

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

Principal Banker

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

Company's Website

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

Stock Code

772

FINANCIAL PERFORMANCE HIGHLIGHTS

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

I am pleased to present our interim report for the six months ended June 30, 2021 to our shareholders. I will share what we have achieved in the past months, and what we plan for the future.

The 2020 interim and annual Chairman's Statements focused on two topics: how to tackle operational challenges, and how to enable long term growth. We aim to tackle operational challenges by focusing on our content, platform, and ecosystem execution, defending our industry leadership today. We aim to enable future growth via enhancing our story telling expertise, cultivating a universe of IP franchises that can deliver long-lasting value over time, and shape what China Literature would become tomorrow. Based on these aspirations, we instituted a company-wide reorganization.

We believe this dual approach to value creation provides us with strategic clarity and, over time, financial results. During the first half of 2021, our total revenues increased 33% to RMB4.3 billion year-over-year. Benefiting from a low base period due to the initial COVID-19 outbreaks in China in the first half of 2020, as well as our initiatives above, revenues from the "IP operations and others" segment increased by 125% to RMB1.8 billion, accounting for 42% of total revenues. Our non-IFRS net profit attributable to equity holders of the Company was RMB665 million, a substantial rebound versus the COVID-19-depressed net profit of RMB21.7 million in the corresponding period last year.

More importantly than the financial results, we believe we extended our underlying content and platform leadership. Specifically:

- During the first half of 2021, the number and quality of our writers and literary works increased. As of June 30, 2021, China Literature had more than 9.4 million writers on the platform, with a total of 14.5 million literary works. Over 18 billion Chinese characters were added to our platform during the first half of the year. According to Baidu's search rankings in June 2021, 17 of the top 20 online literary works industry-wide originated from our platform.
- MAUs for our online business were 232.7 million, an increase of 4% from the previous six months and approximately the same year-over-year, against a COVID-19 boosted base period. We believe our engagement has benefited from emerging top-notch content, enhanced community operations, increased efficiency of our recommendation system, and the growing popularity of our free-to-read service.
- We made substantial progress in the free-to-read service. In June 2021, average DAUs for our free-to-read business were 13 million, an increase of 30% compared to 10 million in December 2020. China Literature and Tencent have set up a joint project team to promote the free-to-read business and to facilitate channel cooperation within the Tencent ecosystem in a more efficient manner. Our free content creation platform continued to produce high-quality free novels and attract more writers.

CHAIRMAN'S STATEMENT

Leadership in content and platform provides us with a flow of high-quality literary IPs, bringing us to the subsequent challenge of building an ecosystem to increase the value of these IPs, and in particular re-imagining the IPs for additional content formats.

- First, we facilitate conversion of literary IP into comics, animation, film, TV drama and games. For example:
 - In 2020 China Literature's Comics & Animation Department and Tencent Comics jointly announced a three-year project to adapt 300 works of online fiction into comics. Currently, more than 70 of our literary works have been adapted into comics and released on the Tencent Comics platform. In addition, we will collaborate with Kuaikan Comics, another leading online comics platform, to adapt 30 online literary works into comics.
 - In the animation segment, we produced and launched a number of animated series adapted from our IP in the first half of this year. The new season of Battle Through the Heavens (斗破苍穹), generated over 1.9 billion video views and a 7.8 score on Douban. We currently have more than 50 animation projects in the pipeline, including animated series adapted from popular IPs, such as Dafeng Guardian (大奉打更人), Forty Millenniums of Cultivation (星域四萬年), The First Order (第一序列), and World's Best Martial Artist (全球高武).
 - In the film and TV drama segment, the drama series My Heroic Husband (贅婿), jointly produced by Tencent Pictures, New Classics Media, and China Literature Pictures, was one of the year's blockbusters. It ranked No. 1 on a number of TV series ranking charts and won praise from respected critics. Another drama series, Soul Land (斗羅大陸), topped Tencent Video's hot search list and TV series list during its broadcast period, enjoying wide market popularity. The Rebel (叛逆者) ranked No. 1 on the playlist of Enlighten's TV series, No.1 on Guduo's hot list for TV series, and was the most-watched program during its specific broadcast time slots on TV stations nationwide for 20 consecutive days. The drama series was also widely acclaimed by viewers and gained 8.3 points on Douban. As for films, New Classics Media participated in the production of the hit film Hi, Mom (你好·李煥英) released during 2021 Chinese New Year holiday, with box office sales of RMB5.4 billion, the second-highest ranking box office sales in the history of China's film industry. Tencent Pictures, New Classics Media, and China Literature Pictures also participated in the production of 1921 (1921), a film to celebrate the 100th anniversary of the founding of the Communist Party of China. The film recreated the beginning of the Communist Party of China and was released in theaters on the date of the actual anniversary on July 1, 2021. Looking ahead, China Literature Pictures, New Classics Media and Tencent Pictures will be working closely together. The partnership will focus on serial development of premium IP franchises, including Joy of Life (慶餘年), My Heroic Husband (贅婿), and Dafeng Guardian (大奉打更人) as well as the launch of high-quality TV series with contemporary themes like A Lifelong Journey (人世間). We will also explore opportunities in new areas such as web films and short dramas.

- In the games segment, Lord of the Mysteries (詭秘之主), A Record of a Mortal's Journey to Immortality (凡人修仙傳), My Heroic Husband (贅婿) and other high-quality IPs have been licensed to the industry's leading game developers, and the games adapted from these IPs will be launched sequentially in the future.
- Second, we seek to enable our premium IP to enter consumer's everyday life. Currently, the influence of Chinese IP is still at an early stage. The top ranking Chinese IP licensor in the global market is number 39. The global IP licensing and merchandizing industry is dominated by entertainment giants from the US, Japan and UK, which together occupy the top 20 positions. We believe in the long-term vitality of Chinese IP. At the beginning of the year, China Literature established an IP Power Center to promote the visual characters created based on our premium IP content, starting with those that have already established a wide user base. We will build a symbiotic relationship with our upstream and downstream partners to explore new opportunities such as IP licensing in consumer products, fashion toys, and offline businesses. We hope China Literature will become one of the top IP licensors globally in the future.
- Third, we aspire to make our IPs become an integral part of the life experience of consumers, bearing a unique timestamp from its date of creation but evolving over time. We hope that the relationships between China Literature's IPs and their fans are interactive, intimate, and enduring, with users' imaginations enriching and invigorating IP's long-term engagement.

We recently laid out our mission as creating good stories that will live forever. Fulfilling this mission requires China Literature's online platforms which discover and popularize excellent authors and content, our ecosystem which brings that content to multiple media formats, and our consumers to welcome and internalize the best ideas into long-life IPs.

OTHER SIGNIFICANT BUSINESS DEVELOPMENTS

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

- A greater number of young writers joined our platform. For example, during the first half of 2021, writers born after 1990 accounted for 86% of our new writers; post-90s writers created 57% of our Top 100 bestselling new titles and they accounted for 54% of our newly added Platinum and Phenomenal Writers.
- We continued to improve our reading community and enhance user engagement. As of June 30, 2021, there were 220 million paragraph comments, 1.1 million user-generated audio recordings for texts, 43 thousand extra chapters in audio and video formats published by writers, and more than 120 works each with over 1 million comments across the platform on a cumulative basis.

- We continued to encourage the creation of literary works with contemporary themes. During the first half of this year, we hosted a writing contest aiming at publishing high quality stories with contemporary themes that convey positive social values and will drive healthy development of the online literature industry. We will adapt contemporary-themed literary works into various media formats including comics, animation, film and drama series to reach a wider audience. In addition, we will translate and publish high-quality contemporary-themed works on our foreign language platform WebNovel to promote stories set in contemporary China to global audiences.
- China Literature was awarded the Outstanding Publisher title, and the work Great Power Heavy Industry (大國重工) incubated on our platform was awarded the Outstanding Online Publication title, by the 5th China Publication Government Awards. The China Publication Government Awards acknowledge and reward outstanding publications, publishers and individuals in the press and publication industry of China.
- We expanded our international presence. As of June 30, 2021, WebNovel, our foreign language website and mobile platform, offered approximately 1,700 works translated from Chinese and approximately 280,000 original content works created locally.

APPRECIATION

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

Sincerely,

Mr. James Gordon Mitchell

Chairman of the Board and Non-Executive Director

Hong Kong, August 16, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Notes:

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Note:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information:

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

	Six months ended June 30, 2021		
	Online business RMB' 000 (Unaudited)	Intellectual property operations and others RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	1,336,007	718,074	2,054,081
Gross profit	1,203,949	1,084,116	2,288,065
Gross margin	47.4%	60.2%	52.7%

	Six months ended June 30, 2020		
	Online business RMB'000 (Restated)	Intellectual property operations and others RMB'000 (Restated)	Total RMB'000 (Unaudited)
Segment revenues	2,457,276	802,930	3,260,206
Cost of revenues	1,132,821	396,073	1,528,894
Gross profit	1,324,455	406,857	1,731,312
Gross margin	53.9%	50.7%	53.1%

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

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

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

	Unaudited six months ended June 30, 2020					
	As reported	Share-based compensation	Net loss from investments and acquisition ⁽¹⁾	Amortization of intangible assets ⁽²⁾	Tax effect	Non-IFRS
	(RMB' 000, unless specified)					
Operating (loss)	(3,555,563)	52,152	3,400,988	45,761	–	(56,662)
(Loss)/profit for the period	(3,310,525)	52,152	3,394,335	45,761	(174,695)	7,028
(Loss)/profit attributable to equity holders of the Company	(3,295,874)	52,152	3,394,335	45,761	(174,695)	21,679
EPS (RMB per share)						
– basic	(3.30)					0.02
– diluted	(3.31)					0.02
Operating margin	(109.1%)					(1.7%)
Net margin	(101.5%)					0.2%

Notes:

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

Capital Structure

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

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

Liquidity and Financial Resources

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

of gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2021:

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

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

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

Capital Expenditures and Long-term Investments

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

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk Management

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

Employees

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

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

NEW CLASSICS MEDIA

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

CORPORATE GOVERNANCE

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

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

MODEL CODE FOR DEALING IN SECURITIES BY DIRECTORS

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

INTERIM DIVIDEND

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

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CHANGES OF DIRECTORS' INFORMATION

Changes of Directors' information since the publication of the Company's 2020 annual report are set out below:

- Mr. Wu Wenhui retired as a Non-Executive Director, Vice-Chairman of the Board and a member of the strategy and investment committee of the Board (the "Strategy and Investment Committee") on April 26, 2021.
- Mr. Zou Zhengyu is a Non-Executive Director and a member of the Strategy and Investment Committee appointed on May 24, 2021.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2021, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept, pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Interests of Directors and Chief Executives of the Company

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company ⁽¹⁾ (%)
Mr. James Gordon Mitchell	Beneficial owner	281,352	Long position	0.03
Mr. Cao Huayi ⁽²⁾	Interest in controlled corporations	40,396,163	Long position	3.97
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00
Mr. Cheng Wu	Beneficial owner	1,304,400	Long position	0.13
Mr. Hou Xiaonan	Beneficial owner	112,072	Long position	0.01

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

Name	Name of Associated Corporations	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in Associated Corporations (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	11,975,763 ⁽³⁾	0.12
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	0.00
Mr. Cheng Yun Ming Matthew	Tencent Holdings Limited	Beneficial owner	437,119 ⁽⁴⁾	0.00
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	168,135 ⁽⁵⁾	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	122,409 ⁽⁶⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,018,805,679 Shares in issue as of June 30, 2021.
- (2) As at June 30, 2021, Mr. Cao Huayi was interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and was therefore deemed to be interested in the 34,118,942 Shares and 6,277,221 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (3) As at June 30, 2021, these interests comprised (i) 2,297,022 shares of Tencent, (ii) 1,662,621 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 8,016,120 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (4) As at June 30, 2021, these interests comprised (i) 340,821 shares of Tencent, (ii) 31,056 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award schemes of Tencent, and (iii) 65,242 shares underlying Tencent in respect of the options granted to Mr. Cheng Yun Ming Matthew under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (5) As at June 30, 2021, these interests comprised (i) 20,302 shares of Tencent, (ii) 7,026 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award schemes of Tencent, and (iii) 140,807 shares underlying Tencent in respect of the options granted to Mr. Cheng Wu under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (6) As at June 30, 2021, these interests comprised (i) 86,285 shares of Tencent, (ii) 27,749 shares underlying Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award schemes of Tencent, and (iii) 8,375 shares underlying Tencent in respect of the options granted to Mr. Hou Xiaonan under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

Save as disclosed above, as of June 30, 2021, none of the Directors and chief executives of the Company has or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the six months ended 30 June 2021, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2021, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company ⁽¹⁾ (%)
Tencent Holdings Limited ⁽²⁾	Interest in controlled corporations	587,128,824	Long position	57.63
THL A13 Limited ⁽²⁾	Beneficial owner	278,085,720	Long position	27.30
Qinghai Lake Investment Limited ⁽²⁾	Beneficial owner	230,705,634	Long position	22.64
Tencent Mobility Limited ⁽²⁾	Beneficial owner	78,337,470	Long position	7.69

Notes:

- (1) The calculation is based on the total number of 1,018,805,679 Shares in issue as of June 30, 2021.
- (2) As at June 30, 2021, THL A13, Qinghai Lake and Tencent Mobility Limited were wholly-owned subsidiaries of Tencent. Under the SFO, Tencent was deemed to be interested in 587,128,824 Shares directly held by THL A13, Qinghai Lake and Tencent Mobility Limited in aggregate.

Save as disclosed above, as of June 30, 2021, the Directors and the chief executives of the Company were not aware of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

RESTRICTED STOCK UNIT PLAN

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

Purpose

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

Eligible Participants

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

Maximum Numbers of Shares

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

Administration

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

Restricted Stock Units

Award of Restricted Stock Units

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

OTHER INFORMATION

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

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

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

Restricted Period

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

Details of the RSUs Granted under the RSU Plan

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

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

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

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

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

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

The RSUs granted in respect of 694,455 underlying Shares (excluding the RSUs, forfeited) on January 4 and April 12, 2021 have a vesting period of five years, one-fifth of which will each vest on January 4 and April 12, 2022, 2023, 2024, 2025 and 2026 respectively.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2021	10,709,518
Granted	694,455
Forfeited	(1,592,494)
Vested	(1,118,900)
Outstanding balance as of June 30, 2021	8,692,579

2020 RESTRICTED SHARE UNIT SCHEME

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

Purposes and Objectives

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

Scheme Limit

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

OTHER INFORMATION

Administration

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

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

The Chairman shall have the sole and absolute right to, among others, determine the any grantee other than a Senior Grantee (the “Junior Grantee”) who will be granted awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which awards are granted to Junior Grantees and when the awards

granted to Junior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest. The committee comprising of any two executive Directors from time to time may (i) exercise the mandate granted by the Shareholders at general meetings of the Company and direct the Company to allot and issue Shares to the trustee to be held by the trustee to satisfy the RSUs upon vesting; and/or (ii) direct and procure the trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off market) to satisfy the RSUs upon vesting.

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

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

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

The RSUs granted in respect of 81,436 underlying Shares (excluding the RSUs, forfeited) on April 12, 2021 have a vesting period of four years, one-fourth of which will each vest on April 12, 2022, 2023, 2024, and 2025 respectively.

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

Name of Director	Date of Grant	Number of Shares underlying the RSUs Granted	Number of Shares underlying the RSUs Vested during six months ended June 30, 2021	Vesting Period
Cheng Wu	September 1, 2020	224,144 Shares	–	September 1, 2021 - September 1, 2024
Hou Xiaonan	September 1, 2020	112,072 Shares	–	September 1, 2021 - September 1, 2024

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2021	3,903,928
Granted	81,436
Forfeited	(463,536)
Vested	–
Outstanding balance as of June 30, 2021	3,521,828

OTHER INFORMATION

SHARE OPTION SCHEME

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. Following the expiry of the 2021 Share Option Scheme, no further share option can be granted under the 2021 Share Option Scheme, but the provisions of the 2021 Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2021 Share Option Scheme.

No share options had been granted since adoption of the 2021 Share Option Scheme and up to and including 30 June 2021.

DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' INTERESTS UNDER THE SHARE OPTION SCHEME OF THE COMPANY

During the six months ended and as at 30 June 2021, none of the Directors of the Company or chief executives or employees of the Company had any interests under any share option scheme of the Company.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of China Literature Limited

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 32 to 89, which comprises the consolidated statement of financial position of China Literature Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2021 and the consolidated statement of comprehensive income/(loss), the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 16, 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the six months ended June 30, 2021

	Note	Six months ended June 30,	
		2021 RMB' 000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenues	7	4,342,146	3,260,206
Cost of revenues	8	(2,054,081)	(1,528,894)
Gross profit		2,288,065	1,731,312
Interest income	9	60,617	62,048
Other gains/(losses), net	10	901,146	(3,529,736)
Selling and marketing expenses	8	(1,348,209)	(1,270,264)
General and administrative expenses	8	(635,087)	(350,665)
Net reversal of/(provision for) impairment losses on financial assets		17,468	(198,258)
Operating profit/(loss)		1,284,000	(3,555,563)
Finance costs	11	(34,561)	(38,080)
Share of net profit of associates and joint ventures	18	115,939	81,827
Profit/(loss) before income tax		1,365,378	(3,511,816)
Income tax (expense)/benefit	12	(284,428)	201,291
Profit/(loss) for the period		1,080,950	(3,310,525)
Other comprehensive (loss)/income:			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive loss of associates and joint ventures		(2,352)	(65)
Currency translation differences		(40,598)	77,566
<i>Items that may not be reclassified to profit or loss</i>			
Net gain from change in fair value of financial asset at fair value through other comprehensive income		5,912	–
Currency translation differences		(2,154)	–
		(39,192)	77,501
Total comprehensive income/(loss) for the period		1,041,758	(3,233,024)
Profit/(loss) attributable to:			
– Equity holders of the Company		1,082,742	(3,295,874)
– Non-controlling interests		(1,792)	(14,651)
		1,080,950	(3,310,525)
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		1,044,054	(3,218,373)
– Non-controlling interests		(2,296)	(14,651)
		1,041,758	(3,233,024)
Earnings/(loss) per share (expressed in RMB per share)			
– Basic earnings/(loss) per share	13(a)	1.08	(3.30)
– Diluted earnings/(loss) per share	13(b)	1.07	(3.31)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

	Note	As of June 30, 2021 RMB' 000 (Unaudited)	As of December 31, 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	41,035	39,590
Right-of-use assets	16	95,967	83,275
Intangible assets	17	7,483,852	7,676,063
Investments in associates and joint ventures	18	696,073	598,576
Financial assets at fair value through profit or loss	20	1,270,242	915,318
Financial asset at fair value through other comprehensive income	21	38,550	–
Deferred income tax assets	22	239,266	188,519
Prepayments, deposits and other assets	24	269,201	314,088
		10,134,186	9,815,429
Current assets			
Inventories	25	581,440	571,830
Television series and film rights	26	950,960	640,496
Trade and notes receivables	27	3,357,985	3,296,287
Prepayments, deposits and other assets	24	672,465	734,808
Term deposits		2,328,842	3,408,679
Cash and cash equivalents		4,583,553	2,848,231
		12,475,245	11,500,331
Total assets		22,609,431	21,315,760
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	23	647	645
Shares held for RSU scheme	23	(12,208)	(9)
Share premium	23	16,459,663	16,259,688
Other reserves	28	1,283,229	1,268,188
Accumulated losses		(1,352,263)	(2,435,005)
		16,379,068	15,093,507
Non-controlling interests		2,704	5,000
Total equity		16,381,772	15,098,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

	Note	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	487,606	691,494
Lease liabilities	16	35,913	34,830
Long-term payables		12,256	16,894
Deferred income tax liabilities	22	156,105	187,603
Deferred revenue		30,000	31,346
Financial liabilities at fair value through profit or loss	33	986,772	1,037,924
		1,708,652	2,000,091
Current liabilities			
Borrowings	30	732,871	554,444
Lease liabilities	16	57,364	50,387
Trade payables	31	1,078,406	1,039,653
Other payables and accruals	32	1,251,739	1,149,708
Deferred revenue		811,086	880,333
Current income tax liabilities		199,339	184,459
Financial liabilities at fair value through profit or loss	33	388,202	358,178
		4,519,007	4,217,162
Total liabilities		6,227,659	6,217,253
Total equity and liabilities		22,609,431	21,315,760

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

On behalf of the board of directors

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

	Attributable to equity holders of the Company							
	Share capital RMB' 000	Share premium RMB' 000	Shares held for RSU scheme RMB' 000	Other reserves RMB' 000	(Accumulated	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
					losses)/ retained earnings RMB' 000			
(Unaudited)								
As of January 1, 2021	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507
Comprehensive income/(loss)								
Profit/(loss) for the period	-	-	-	-	1,082,742	1,082,742	(1,792)	1,080,950
Other comprehensive loss								
- Share of other comprehensive loss of associates and a joint venture (Note 18)	-	-	-	(2,352)	-	(2,352)	-	(2,352)
- Currency translation differences	-	-	-	(42,248)	-	(42,248)	(504)	(42,752)
- Net gain from change in fair value of financial asset at fair value through other comprehensive income	-	-	-	5,912	-	5,912	-	5,912
Total comprehensive income/(loss) for the period	-	-	-	(38,688)	1,082,742	1,044,054	(2,296)	1,041,758
Transaction with owners								
Share-based compensation expenses	-	-	-	53,729	-	53,729	-	53,729
Repurchase of shares for RSU scheme	-	-	(12,201)	-	-	(12,201)	-	(12,201)
Transfer of vested RSUs	-	(2,052)	2	-	-	(2,050)	-	(2,050)
Issue of ordinary shares as consideration for a business combination	2	202,027	-	-	-	202,029	-	202,029
Transactions with owners in their capacity for the period	2	199,975	(12,199)	53,729	-	241,507	-	241,507
As of June 30, 2021	647	16,459,663	(12,208)	1,283,229	(1,352,263)	16,379,068	2,704	16,381,772

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total RMB'000
(Unaudited)								
As of January 1, 2020	642	16,161,809	(19)	1,135,387	2,098,748	19,396,567	14,244	19,410,811
Comprehensive (loss)/income								
Loss for the period	-	-	-	-	(3,295,874)	(3,295,874)	(14,651)	(3,310,525)
Other comprehensive income								
- Share of other comprehensive loss of associates and a joint venture (Note 18)	-	-	-	(65)	-	(65)	-	(65)
- Currency translation differences	-	-	-	77,566	-	77,566	-	77,566
Total comprehensive (loss)/income for the period	-	-	-	77,501	(3,295,874)	(3,218,373)	(14,651)	(3,233,024)
Transaction with owners								
Share-based compensation expenses	-	-	-	52,152	-	52,152	-	52,152
Transfer of vested RSUs	-	104,830	8	-	-	104,838	-	104,838
Issue of ordinary shares as consideration for a business combination	3	97,870	-	-	-	97,873	-	97,873
Transactions with owners in their capacity for the period	3	202,700	8	52,152	-	254,863	-	254,863
As of June 30, 2020	645	16,364,509	(11)	1,265,040	(1,197,126)	16,433,057	(407)	16,432,650

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

	Six months ended June 30,	
	2021 RMB' 000 (Unaudited)	2020 RMB'000 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	804,977	633,670
Income tax paid	(374,950)	(92,729)
Net cash generated from operating activities	430,027	540,941
Cash flows from investing activities		
Placements of term deposits with initial term of over three months	(2,001,297)	(2,554,892)
Receipts from maturity of term deposits with initial term of over three months	3,080,551	168,928
Purchase of property, plant and equipment	(10,510)	(7,511)
Purchase of intangible assets	(107,268)	(117,572)
Proceeds from disposals of property, plant and equipment	143	43
Proceeds from disposals of intangible assets	133,962	–
Interest received	69,227	46,430
Dividends received	161	–
Settlement of contingent consideration payable	(204,201)	(1,021,006)
Payments for acquisition of financial assets at fair value through profit or loss	(554,828)	–
Payments for acquisition of financial asset at fair value through other comprehensive income	(33,050)	–
Proceeds from sale of held for sale asset	1,076,817	–
Net cash generated from/(used in) investing activities	1,449,707	(3,485,580)
Cash flows from financing activities		
Proceeds from borrowings	154,857	2,081,567
Repayments of borrowings	(176,430)	(1,520,424)
Finance costs paid	(32,474)	(33,902)
Repurchase of shares for RSU scheme	(12,201)	–
Repayments to financial investors in TV programs and film production	(31,125)	(33,072)
Principal elements of lease payments	(33,392)	(30,347)
Proceeds from film investors	6,056	1,572
Receipts of restricted bank deposits	–	21,000
Net cash flows (used in)/generated from financing activities	(124,709)	486,394
Net increase/(decrease) in cash and cash equivalents	1,755,025	(2,458,245)
Cash and cash equivalents at beginning of the period	2,848,231	5,931,849
Exchange (losses)/gains on cash and cash equivalents	(19,703)	41,414
Cash and cash equivalents at end of the period	4,583,553	3,515,018

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

1 GENERAL INFORMATION

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

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

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

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

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

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

2 BASIS OF PREPARATION

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

3.1 Amendments to standards and interpretations adopted by the Group

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

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest rate benchmark (IBOR) reform – phase 2

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

4 ESTIMATES

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

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2020 Financial Statements, except as described below.

Change of the estimated useful lives of copyrights of contents

The Group completed a re-assessment of the useful lives of its copyrights of certain contents, and determined that the estimated useful lives of copyrights of certain contents should be shortened from 3 to 5 years to 18 months to 3 years with effective from January 1, 2021, which was mainly due to the evolving writers and contents on the platforms. It was accounted for prospectively as a change in accounting estimate and as a result, the amortisation for the six months ended June 30, 2021 has been increased by approximately RMB135,867,000.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2020 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 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
(Unaudited)					
As of June 30, 2021					
Trade payables	1,078,406	–	–	–	1,078,406
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	1,037,490	3,639	–	–	1,041,129
Borrowings (Note 30)	732,871	100,000	387,606	–	1,220,477
Financial liabilities at fair value through profit or loss (Note 33)	221,670	251,188	575,944	–	1,048,802
Lease liabilities (Note 16)	60,627	29,895	7,614	117	98,253
Total	3,131,064	384,722	971,164	117	4,487,067

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2020					
Trade payables	1,039,653	–	–	–	1,039,653
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	958,766	12,988	788	–	972,542
Borrowings (Note 30)	554,444	300,000	391,494	–	1,245,938
Financial liabilities at fair value through profit or loss (Note 33)	157,193	155,941	313,688	–	626,822
Lease liabilities (Note 16)	49,907	31,667	8,823	223	90,620
Total	2,759,963	500,596	714,793	223	3,975,575

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair values estimation

The table below analyses the Group's financial instruments carried at fair values, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair values as of June 30, 2021.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
(Unaudited)				
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares of associates	–	–	1,216,104	1,216,104
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	17,589	–	–	17,589
– Investments in movies and TV series	–	–	24,549	24,549
	17,589	–	1,252,653	1,270,242
Financial asset at fair value through other comprehensive income				
– Investment in a listed entity	38,550	–	–	38,550
	56,139	–	1,252,653	1,308,792
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions)	–	–	1,374,974	1,374,974

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair values estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair values as of December 31, 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares of associates	–	–	890,444	890,444
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	12,874	–	–	12,874
	12,874	–	902,444	915,318
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions)	–	–	1,396,102	1,396,102

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair values estimation (Continued)

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2021.

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.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair values estimation (Continued)

There were no changes in valuation techniques during the periods.

The following table presents the changes in level 3 financial instruments for the six months ended June 30, 2021 and 2020.

	Financial assets		Financial liabilities	
	Six months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB' 000	RMB'000	RMB' 000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening balance	902,444	441,842	1,396,102	1,656,613
Additions	304,593	–	–	–
Settlement of contingent consideration payable	–	–	(406,231)	(1,118,878)
Changes in fair value recognised as other gains/(losses), net	50,195	714,961	383,228	(516,790)
Compensation cost	–	–	1,875	–
Changes in fair value recognised as revenues	(1,684)	–	–	–
Disposal	(1,497)	–	–	–
Currency translation differences	(1,398)	319	–	(20,945)
Closing balance	1,252,653	1,157,122	1,374,974	–
Include unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period	48,511	714,961	383,228	(516,790)

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.

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

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (CONTINUED)

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

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

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2021 and 2020 is as follows:

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (CONTINUED)

The reconciliation of gross profit to profit/(loss) before income tax of individual period during the six months ended June 30, 2021 and 2020 is shown in the consolidated statement of comprehensive income/(loss).

For the six months ended June 30, 2021, the Group's customer base is diversified and includes only Tencent with whom transactions have exceeded 10% of the Group's total revenues (for the six months ended June 30, 2020: no revenue from a single external customer was more than 10% of the Group's total revenues).

As of June 30, 2021 and 2020, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

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:

(Unaudited) Six months ended June 30, 2021	Online business			Intellectual property operations and others		
	On self-owned platform products RMB' 000	On self-operated channels on Tencent products RMB' 000	On third-party platforms RMB' 000	Intellectual property operations RMB' 000	Others RMB' 000	Total RMB' 000
Timing of revenue recognition:						
– At a point in time	1,718,435	252,451	305,846	806,420	59,472	3,142,624
– Over time	162,219	101,005	–	933,666	2,632	1,199,522
	1,880,654	353,456	305,846	1,740,086	62,104	4,342,146

7 REVENUES (CONTINUED)

7.1 Disaggregation of revenue from contracts with customers (Continued)

(Unaudited)	Online business			Intellectual property operations and others		Total
	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	
Six months ended June 30, 2020	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000	RMB'000
Timing of revenue recognition:						
– At a point in time	1,848,937	210,834	159,343	317,723	41,268	2,578,105
– Over time	140,811	97,351	–	439,557	4,382	682,101
	1,989,748	308,185	159,343	757,280	45,650	3,260,206

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE

	Six months ended June 30,	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Promotion and advertising expenses (Note a)	1,091,655	1,027,799
Content costs (Note b)	800,085	583,608
Platform distribution costs (Note c)	609,620	619,313
Employee benefits expenses	497,530	260,847
Amortisation of intangible assets (Note 17)	262,701	103,353
Production costs of TV, web and animated series and films	219,231	45,688
Payment handling costs	166,438	167,560
Game development outsourcing costs	146,994	55,557
Bandwidth and server custody fees	41,052	34,493
Depreciation of right-of-use assets (Note 16)	32,442	32,641
Impairment loss on prepayments to directors, actors and writers	20,000	26,000
Cost of physical inventories sold (Note 25)	19,945	20,557
Professional service fees	18,912	31,646
Travelling, entertainment and general office expenses	18,092	15,789
Provision for physical inventory obsolescence (Note 25)	13,567	39,330
Tax surcharge expenses	9,565	2,419
Depreciation of property, plant and equipment (Note 15)	9,479	11,466
Auditors' remuneration		
– Audit services	5,417	5,150
– Non-audit services	96	482
Impairment loss on television series and film rights (Note 26)	4,343	22,425
Logistic expenses	2,462	2,397
Expense relating to short-term leases (Note 16)	1,700	2,350
Others	46,051	38,953
	4,037,377	3,149,823

8 EXPENSES BY NATURE (CONTINUED)

Notes:

- (a) Promotion and advertising expenses include: 1) pre and post installation promotion expenses that the Group paid to mobile devices manufacturers for its operations, and 2) the Group paid to various official accounts on social networking app for the operations of the Group's online reading content. These expenses are recorded as "selling and marketing expenses" in the consolidated statement of comprehensive income/(loss).
- (b) Content costs mainly consist of 1) other than the initial acquisition of the copyright from writers, the Group also pays a certain percentage of the revenues earned on such content posted through its self-owned, self-operated and third-party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements, 2) the direct costs associated with the adaptation rights and scripts that sold by the Group, and 3) the impairment loss on adaptation rights and scripts. These content costs are recorded as "cost of revenues" in the consolidated statement of comprehensive income/(loss).
- (c) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.
- (d) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2021 was approximately RMB407,358,000 (six months ended June 30, 2020: RMB257,018,000), which mainly included employee benefits expenses of research and development function staff.

9 INTEREST INCOME

	Six months ended June 30,	
	2021	2020
	RMB' 000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on bank deposits	60,617	62,048

NOTES TO THE INTERIM FINANCIAL INFORMATION

10 OTHER GAINS/(LOSSES), NET

	Six months ended June 30,	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Gain on sale of held for sale asset (Note 34(c))	1,076,817	–
Gain on disposals of intangible assets (Note a)	133,962	–
Fair value gain/(loss) of investments in redeemable shares of associates (Note 5.3)	50,195	(8,999)
Subsidies and tax rebates	38,292	48,449
Gain on copyright infringements	6,253	8,541
Fair value gain of investment in a listed entity	4,842	2,337
Fair value (loss)/gain on remeasurement of contingent consideration payable (Note 5.3)	(383,228)	1,240,750
Impairment loss of other intangible assets (Note 17)	(25,776)	(537,086)
Loss on liquidation of subsidiaries	(3,590)	–
Impairment loss of goodwill (Note 17)	–	(4,015,854)
Loss on disposal of film rights and a television series	–	(10,038)
Impairment provision for investments in associates and a joint venture (Note 18)	–	(251,960)
Others	3,379	(5,876)
	901,146	(3,529,736)

Note:

- (a) Gain on disposals of intangible assets mainly consists of gain on certain intangible assets as part of consideration in exchange of investment in redeemable convertible preferred shares. In December 2020, the Group invested in redeemable convertible preferred shares of a third-party company engaged in online business. In addition to cash, the total consideration also included an exchange of certain intangible assets of the Group. The aforementioned assets were legally transferred in February 2021, and the difference between the carrying value of the aforementioned assets and the fair value of approximately RMB124,033,000 was recognised as "other gains/(losses), net" in the consolidated statement of comprehensive income/(loss).

NOTES TO THE INTERIM FINANCIAL INFORMATION

11 FINANCE COSTS

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest expenses on borrowings	30,103	31,999
Interest expenses on lease liabilities	2,278	1,874
Foreign exchange loss, net	2,180	4,207
	34,561	38,080

12 INCOME TAX EXPENSE/(BENEFIT)

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

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

(b) Hong Kong profit tax

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

(c) PRC corporate income tax

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

(c) PRC corporate income tax (Continued)

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

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

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

	Six months ended June 30,	
	2021 RMB' 000 (Unaudited)	2020 RMB' 000 (Unaudited)
Profit/(loss) before income tax	1,365,378	(3,511,816)
Share of profit of associates and joint ventures	(115,939)	(81,827)
Tax calculated at PRC statutory tax rate of 25%	312,360	(898,411)
Effects of respective tax rates applicable to different subsidiaries of the Group	4,542	(8,493)
Unrecognised deferred income tax assets	44,682	46,564
Reversal of deferred income tax liabilities arising from sale of a joint venture	(29,840)	–
Utilisation of previously unrecognised deferred income tax assets	(26,374)	–
Non-deductible expenses less non-taxable income	2,713	680,035
Research and development tax credit	(23,655)	(20,986)
Income tax expense/(benefit)	284,428	(201,291)

13 EARNINGS/(LOSS) PER SHARE

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

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 EARNINGS/(LOSS) PER SHARE (CONTINUED)

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

14 DIVIDENDS

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)						
Six months ended June 30, 2021						
Opening net book amount as of January 1, 2021	23,837	10,799	3,360	1,461	133	39,590
Additions	6,287	2,500	409	1,346	498	11,040
Transfer from construction in progress	–	218	–	–	(218)	–
Disposals	(108)	–	(12)	–	–	(120)
Depreciation	(5,303)	(3,287)	(491)	(398)	–	(9,479)
Currency translation differences	(2)	6	–	–	–	4
Closing net book amount as of June 30, 2021	24,711	10,236	3,266	2,409	413	41,035

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)						
Six months ended June 30, 2020						
Opening net book amount as of January 1, 2020	21,441	12,768	2,896	2,009	2,407	41,521
Additions	3,470	270	886	–	1,778	6,404
Transfer from construction in progress	–	551	–	–	(551)	–
Disposals	(43)	(291)	(46)	–	–	(380)
Depreciation	(4,490)	(5,926)	(693)	(357)	–	(11,466)
Currency translation differences	3	6	–	–	–	9
Closing net book amount as of June 30, 2020	20,381	7,378	3,043	1,652	3,634	36,088

16 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Right-of-use assets		
Properties	95,868	83,085
Vehicle	99	7
Equipment	–	183
	95,967	83,275
Lease liabilities		
Current	57,364	50,387
Non-current	35,913	34,830
	93,277	85,217

Additions to the right-of-use assets during the six months ended June 30, 2021 were approximately RMB59,500,000 (six months ended June 30, 2020: RMB19,980,000).

16 LEASES (CONTINUED)

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

The consolidated statement of comprehensive income/(loss) shows the following amounts relating to leases:

	Six months ended June 30,	
	2021	2020
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets		
Properties	(32,350)	(32,469)
Vehicle	(85)	(145)
Equipment	(7)	(27)
	(32,442)	(32,641)
Interest expense (included in finance costs)	2,278	1,874
Expense relating to short-term leases (included in general and administrative expenses)	1,700	2,350
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	149	–
	4,127	4,224

For the six months ended June 30, 2021, the total cash outflow for leases was approximately RMB35,670,000 (six months ended June 30, 2020: RMB32,221,000).

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

The Group leases various properties, equipment and vehicle. Rental contracts are typically made for fixed periods of 6 months to 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 INTANGIBLE ASSETS

	Goodwill	Non- compete agreement	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
(Unaudited)								
Six months ended June 30, 2021								
Opening net book amount as of January 1, 2021	6,637,471	43,023	597,816	367,885	21,999	5,660	2,209	7,676,063
Additions	-	-	377	99,152	-	2,863	-	102,392
Amortisation	-	(7,717)	(10,368)	(235,210)	(7,333)	(2,022)	(51)	(262,701)
Impairment provision	-	-	-	(25,776)	-	-	-	(25,776)
Liquidation of a subsidiary	(4,664)	-	-	-	-	-	-	(4,664)
Currency translation differences	-	-	-	(1,462)	-	-	-	(1,462)
Closing net book amount as of June 30, 2021	6,632,807	35,306	587,825	204,589	14,666	6,501	2,158	7,483,852

	Goodwill	Non- compete agreement	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
(Unaudited)								
Six months ended June 30, 2020								
Opening net book amount as of January 1, 2020	10,653,325	17,283	1,105,697	349,847	36,666	3,670	2,311	12,168,799
Additions (Note a)	-	38,840	-	100,913	-	2,237	-	141,990
Amortisation	-	(5,384)	(13,598)	(75,310)	(7,333)	(1,677)	(51)	(103,353)
Impairment provision	(4,015,854)	-	(483,930)	(53,121)	-	(35)	-	(4,552,940)
Currency translation differences	-	-	-	977	-	-	-	977
Closing net book amount as of June 30, 2020	6,637,471	50,739	608,169	323,306	29,333	4,195	2,260	7,655,473

Note:

- (a) On April 27, 2020, certain members of the senior management of the Group have tendered their resignation to the Group. The senior management entered into several contracts associated with his resignation, which contained non-compete clauses covering a period ranging from two to five-years. Such non-compete agreements were measured at fair value and recognised as "intangible assets" in the consolidated statement of financial position. The aforementioned intangible assets of approximately RMB38,840,000 are amortised over their respective contractual period by using the straight-line method.

17 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

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

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

During the six months ended June 30, 2021 and June 30, 2020, impairment review on the goodwill relating to acquired TV and film business has been conducted by the management according to IAS 36 "Impairment of assets". The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments.

For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations. As of June 30, 2021 and June 30, 2020, the recoverable amount of goodwill was determined based on value-in-use calculation. The value-in-use calculations use cash flow projections based on business projection for the purpose of impairment reviews covering a five-year period and a six-year period, respectively. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business projection and market developments.

As of June 30, 2020, the Group recognised an impairment provision of approximately RMB4,015,854,000 against the carrying amount of goodwill relating to acquired TV and film business. No further impairment of goodwill relating to acquired TV and film business was recognised as of June 30, 2021.

17 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for the copyrights of contents

Impairment review on the copyrights of contents owned by a subsidiary of the Group, which is mainly engaged in overseas online reading platform, has been conducted by the management as of June 30, 2021 according to IAS 36 “*Impairment of assets*”. As of June 30, 2021, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of June 30, 2021, the Group made an impairment provision of approximately RMB25,776,000 against the carrying amount of such copyrights.

Impairment review on the copyrights that owned by a subsidiary of the Group, which is mainly engaged in physical book publishing business, has been conducted by the management as of June 30, 2020 according to IAS 36 “*Impairment of assets*”. As of June 30, 2020, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of June 30, 2020, the Group made an impairment provision of approximately RMB53,121,000 against the carrying amount of such copyrights.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates

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

Note:

- (a) During the six months ended June 30, 2021, the Group's addition to investments in associates mainly comprised a new investment in a cartoon production and animation production company. As of June 30, 2021, the Group's equity interest in this associate was 20%.

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 RMB214,837,000 against the carrying amounts of certain investments in associates during the six months ended June 30, 2020. The impairment losses mainly resulted from revisions of financial and business outlook of the associates and changes in the market environment of the underlying business. No impairment loss on investments in associates was recognised during the six months ended June 30, 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures

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

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 indications, 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 RMB37,123,000 against the carrying amounts of certain investments in joint ventures during the six months ended June 30, 2020. The impairment losses mainly resulted from revisions of financial and business outlook of the joint ventures and changes in the market environment of the underlying business. No impairment loss on investments in joint ventures was recognised during the six months ended June 30, 2021.

(c) Joint operations

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value:		
– Financial assets at fair value through profit or loss (“FVPL”) (Note 20)	1,270,242	915,318
– Financial asset at fair value through other comprehensive income (“FVOCI”) (Note 21)	38,550	–
	1,308,792	915,318
Financial assets at amortised cost:		
– Trade and notes receivables (Note 27)	3,357,985	3,296,287
– Deposits and other assets (current and non-current portions) (Note 24)	288,538	287,752
– Term deposits (current and non-current portions)	2,328,842	3,408,679
– Cash and cash equivalents	4,583,553	2,848,231
	11,867,710	10,756,267
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 33)	1,374,974	1,396,102
Financial liabilities at amortised cost:		
– Trade payables (Note 31)	1,078,406	1,039,653
– Lease liabilities (current and non-current portions) (Note 16)	93,277	85,217
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 32)	1,032,025	879,199
– Borrowings (current and non-current portions) (Note 30)	1,220,477	1,245,938
– Long-term payables	12,256	16,894
	4,811,415	4,663,003

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

FVPL include the following:

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

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

Movement of FVPL is analysed as follows:

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
At the beginning of the period	915,318	457,185
Additions (Note a)	304,593	–
Changes in fair value recognised as other gains/(losses), net (Note 10)	55,037	717,298
Changes in fair value recognised as revenues	(1,684)	–
Disposal (Note b)	(1,497)	–
Currency translation difference	(1,525)	538
At the end of the period	1,270,242	1,175,021

Notes:

- (a) In June 2021, the Group invested in redeemable convertible preferred shares of a third-party company engaged in online business at a purchase consideration of USD18,000,000 (equivalent to approximately RMB115,326,000), which represented 5% equity interest of the investee on an outstanding and fully converted basis.

In 2015, the Group made investment in some convertible redeemable preferred shares or redeemable ordinary shares with preference rights of a private company that engaged in provision of online publishing service, and the investment was initially acquired in exchange of licensing certain copyrights of the Group to the investee for a certain period of time. Both the investment and copyrights licensed are initially measured at fair value. In January 2021, the Group made an additional investment in some convertible redeemable preferred shares of this private company at a cash consideration of approximately USD25,000,000 (equivalent to approximately RMB161,775,000). After the transaction, the Group held 2.76% equity interest of the investee on an outstanding and fully converted basis.

- (b) During the six months ended 30 June 2021, the Group disposed of partially its investments in movies and TV series with carrying value of approximately RMB1,497,000 at zero consideration.

NOTES TO THE INTERIM FINANCIAL INFORMATION

21 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

FVOCI include the following:

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

Movement of FVOCI is analysed as follows:

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
At the beginning of the period	—	—
Additions (Note a)	33,050	—
Changes in fair value	5,912	—
Currency translation difference	(412)	—
At the end of the period	38,550	—

Note:

- (a) In March 2021, the Group made an investment in 48,000 ordinary shares of an online platform at a total consideration of approximately Hong Kong Dollars ("HKD") 39,000,000 (equivalent to approximately RMB33,050,000). The investment is not held for trading and has been elected as and measured at FVOCI.

22 DEFERRED INCOME TAXES

The movements in deferred income tax assets and liabilities during the periods are as follows:

	Provision for inventory obsolescence and doubtful receivables RMB' 000	Tax losses RMB' 000	Intangible assets acquired in business combination RMB' 000	Provision for investments in associates and a joint venture RMB' 000	Accrued expense, Lease and accelerated amortisation of intangible assets RMB' 000	Other temporary differences RMB' 000	Total RMB' 000
(Unaudited)							
As of January 1, 2021	73,841	12,108	(156,248)	38,742	16,052	16,421	916
Recognised in the profit or loss	6,475	(7,737)	5,117	–	53,109	25,281	85,245
As of June 30, 2021	80,316	4,371	(151,131)	38,742	69,161	41,702	83,161
(Unaudited)							
As of January 1, 2020	19,087	73,427	(284,325)	–	3,553	56,396	(131,862)
Recognised in the profit or loss	81,923	29,951	132,477	38,742	3,314	(37,905)	248,502
As of June 30, 2020	101,010	103,378	(151,848)	38,742	6,867	18,491	116,640

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. As of June 30, 2021, the Group did not recognise deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB283,320,000 (December 31, 2020: RMB148,214,000). These tax losses will primarily expire from 2021 to 2025.

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)					
As of January 1, 2021	1,015,781,716	645	16,259,688	(9)	16,260,324
Transfer of vested RSUs	–	–	(2,052)	2	(2,050)
Issue of ordinary shares as consideration for a business combination (Note 33)	3,023,963	2	202,027	–	202,029
Repurchase of shares for RSU scheme (Note a)	–	–	–	(12,201)	(12,201)
As of June 30, 2021	1,018,805,679	647	16,459,663	(12,208)	16,448,102

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)					
As of January 1, 2020	1,012,336,846	642	16,161,809	(19)	16,162,432
Transfer of vested RSUs	–	–	104,830	8	104,838
Issue of ordinary shares as consideration for a business combination	3,444,870	3	97,870	–	97,873
As of June 30, 2020	1,015,781,716	645	16,364,509	(11)	16,365,143

Note:

- (a) In June 2021, the Group procured a professional trustee appointed by the group to repurchase a total of 170,000 ordinary shares that listed on The Stock Exchange of Hong Kong Limited for 2020 Restricted Share Unit Scheme. The total amount paid to repurchase these ordinary shares was approximately HKD14,731,000 (approximately RMB12,201,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

24 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Non-current:		
Deferred compensation cost	186,868	213,292
Prepayment to directors, actors and writers (Note a)	74,951	93,376
Deposits and prepayments	7,382	7,420
	269,201	314,088
Current:		
Amounts due from related parties	141,043	125,733
Receivable from co-producers and others on production of television series and films	90,098	88,519
Deferred costs	80,612	80,601
Recoverable value-added tax	77,884	82,044
Prepayments to vendors and online writers	75,199	62,131
Prepaid corporate income tax	58,152	34,995
Prepayment for production of television series and films	46,175	152,599
Prepayment to directors, actors and writers (Note a)	29,987	23,150
Rental and other deposits	19,330	25,119
Interests receivable	13,241	21,851
Prepayment for an overseas licensed film right	6,287	6,440
Royalty advances	4,799	6,041
Staff advances	3,064	3,461
Others	26,594	22,124
	672,465	734,808

Note:

- (a) As of June 30, 2021 and December 31, 2020, the balance represented the prepayments made to directors, actors and writers in connection with the Group's productions of television series and film rights.

The directors of the Group considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as of June 30, 2021 and December 31, 2020. Deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

25 INVENTORIES

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

26 TELEVISION SERIES AND FILM RIGHTS

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

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

	Under production RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2020	655,723	451,948	1,107,671
Additions	264,230	–	264,230
Transfer from under production to completed	(54,890)	54,890	–
Transfer from adaptation rights and scripts to under production	46,229	–	46,229
Recognised in cost of revenues (Note a)	(21,792)	(46,321)	(68,113)
Recognised in other gains/(losses), net (Note 10)	–	(151,547)	(151,547)
As of June 30, 2020 (Note b)	889,500	308,970	1,198,470

26 TELEVISION SERIES AND FILM RIGHTS (CONTINUED)

Notes:

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

27 TRADE AND NOTES RECEIVABLES

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 OTHER RESERVES

	Contribution from holding company RMB' 000	Currency translation differences RMB' 000	Put option on non- controlling interests RMB' 000	Share-based compensation reserve RMB' 000	Statutory surplus reserve fund RMB' 000	Capital reserve RMB' 000	Investments in joint ventures and associates RMB' 000	FVOCI RMB' 000	Total RMB' 000
(Unaudited)									
As of January 1, 2021	34,127	309,781	10,964	762,361	181,807	(40,785)	9,933	-	1,268,188
Currency translation differences	-	(42,248)	-	-	-	-	-	-	(42,248)
Share-based compensation expenses	-	-	-	53,729	-	-	-	-	53,729
Share of other comprehensive loss of associates and a joint venture	-	(2,350)	-	-	-	-	(2)	-	(2,352)
Net gain from change in fair value of FVOCI	-	-	-	-	-	-	-	5,912	5,912
As of June 30, 2021	34,127	265,183	10,964	816,090	181,807	(40,785)	9,931	5,912	1,283,229
(Unaudited)									
As of January 1, 2020	34,127	341,158	10,964	642,157	131,923	(35,831)	10,889	-	1,135,387
Currency translation differences	-	77,566	-	-	-	-	-	-	77,566
Share-based compensation expenses	-	-	-	52,152	-	-	-	-	52,152
Share of other comprehensive loss of associates and a joint venture	-	860	-	-	-	-	(925)	-	(65)
As of June 30, 2020	34,127	419,584	10,964	694,309	131,923	(35,831)	9,964	-	1,265,040

29 SHARE-BASED PAYMENTS

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

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

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

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

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

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

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

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

29 SHARE-BASED PAYMENTS (CONTINUED)

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

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

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

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

Movements in the number of RSUs outstanding are as follows:

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

30 BORROWINGS

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

Note:

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

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

31 TRADE PAYABLES

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

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

32 OTHER PAYABLES AND ACCRUALS

	As of June 30, 2021 RMB' 000 (Unaudited)	As of December 31, 2020 RMB'000
Advertising and marketing expense accruals	254,848	212,563
Deposits received from a fellow subsidiary	215,612	–
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	168,427	209,405
Outsourcing game development fee payable	142,054	24,564
Staff costs and welfare accruals	134,844	162,658
Payables to financial investors in TV programs and film production	94,266	119,335
Other tax payable	69,700	96,551
Payments received from co-producer (Note b)	37,947	52,040
Professional service fee payable	20,678	30,171
Special funds payable	15,170	11,300
Payables related to investment in an associate	10,000	–
Payables due to a non-controlling shareholder	2,047	7,375
Interests payable	1,847	1,940
Payable related to investment in financial asset at fair value through profit or loss	–	124,033
Others	84,299	97,773
	1,251,739	1,149,708

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

- (a) These payables are related to the proceeds generated from television series and film rights that are collected by the Group as a distribution agent.
- (b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreements.

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Non-current:		
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (Note a)	986,772	1,037,924
Current:		
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (Note a)	388,202	358,178
	1,374,974	1,396,102

Note:

- (a) On October 31, 2018, the Group entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. Pursuant to the share purchase agreement, the aggregate nominal consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to the earn out mechanism that set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the share purchase agreement.

In addition, out of the total nominal consideration of RMB15,500,000,000, RMB500,000,000 is a contingent payment that subject to the conditions including 1) certain profit target for the year ending December 31, 2020 is met; and 2) a specific group of selling shareholders (as defined in the share purchase agreement) continues his/her employment relationship with the Group till March 31, 2023. As such, the RMB500,000,000 contingent payment is considered and accounted as remuneration for post-combination services.

For the six months ended June 30, 2020, since New Classics Media would not be able to meet the defined profit target for the year ended December 31, 2020, the Group reversed previously recognised post-combination service expense, which is recognised for the period from the acquisition date of New Classics Media to December 31, 2019, in the amount of approximately RMB116,667,000 recognised it as a deduction of employee benefits expenses in the "general and administrative expenses" of the consolidated statement of comprehensive income/(loss).

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Note: (Continued)

- (a) On August 27, 2020, the Group entered into a supplemental deed in relation to the amendment of the 2018 New Classics Media Share Purchase Agreement ("the supplemental SPA deed"), which was approved by the shareholders of the Group on December 9, 2020 and took effective from December 11, 2020 (the "Effective Date"). Pursuant to the supplemental SPA deed, the original earn out mechanism was revised. The original earn out consideration payable by the Group for the year ended December 31, 2020 under the original earn out mechanism (being 15,119,815 consideration shares and approximately RMB1,021,000,000 in cash) has been apportioned into five tranches and allocated to cover the five financial years of New Classics Media ending December 31, 2024, and is subject to additional conditions and adjustments set forth in the supplemental SPA deed. Under the new earn out mechanism (as defined in the supplemental SPA deed), a total number of 3,023,963 consideration shares at a par value of USD0.0001 each were issued and a total cash consideration of approximately RMB 204,201,000 was paid in April 2021.

On the Effective Date, the consideration receivable under the original earn out mechanism were derecognised and the estimated consideration payable of approximately RMB1,396,102,000 arising from the new earn out mechanism (as defined in the supplemental SPA deed) was recognised as "contingent consideration payable. The contingent consideration payable was initially and subsequently measured at fair value based on the valuation performed by the independent external valuation firm.

Under the supplemental SPA deed, founder SPV (as defined in the share purchase agreement entered into on August 13, 2018) must return to the Group an amount of approximately RMB216,358,000 on a one-time basis equal to the return of consideration under the original earn out mechanism, if he ceases or terminates his employment or breaches the deed of non-competition. As such, approximately RMB216,358,000 was considered and accounted as remuneration for his future services and was recognised as "deferred compensation cost" in the consolidated statement of financial position, on the Effective Date. For the six months ended June 30, 2021, the compensation cost amounting to approximately RMB26,424,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income/(loss).

In addition, out of the total aforementioned consideration, an aggregate RMB20,000,000 was a contingent payment which would be automatically forfeited if a specific group of employment in New Classics Media terminates his/her employment. It was also considered and accounted as remuneration for his/her future service. During the six months June 30, 2021, RMB1,000,000 has been deducted from the consideration payment since certain management employees have left New Classics Media. The compensation cost amounting to approximately RMB1,875,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income/(loss) during the six months ended June 30, 2021.

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Name of major related parties	Relationship with the Company
Tencent Holdings Limited	Ultimate holding company
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Shenzhen Lazy Online Technology Co., Ltd.	Fellow subsidiary
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Tencent Cloud Computing (Beijing) Company Limited	Fellow subsidiary
Tencent Technology (Chengdu) Company Limited	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Tencent Music Entertainment Group	Fellow subsidiary
Shenzhen Tencent Animation and Comics Co., Ltd.	Fellow subsidiary
Tencent Film Culture Co., Ltd.	Fellow subsidiary
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Khorgas Fanrenxianjie Media Co., Ltd.	Joint venture of the Group
Beijing Jinjiang Networking Technology Co., Ltd.	Joint venture of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group
Hangzhou Wawayu Animation Design Co., Ltd.	Associate of the Group
Yuedong Culture Communication (Shanghai) Co., Ltd.	Associate of the Group
Chongqing Caiseqianbi Animation Design Co., Ltd.	Associate of the Group
Jiangsu Maoyan Media Co., Ltd.	Associate of the ultimate holding company
Seven Impressions Media (Haikou) Co., Ltd.	Associate of the ultimate holding company
Tianjin Maoyan Weiyang Media Co., Ltd.	Associate of the ultimate holding company
Sogou, Inc.	Associate of the ultimate holding company
JD.com, Inc.	Associate of the ultimate holding company
Shanghai Youhug Media Co., Ltd.	Associate of the ultimate holding company
Tibet Tongkan Future Film and Culture Media Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Copyrights licensing, provision of advertising and management services and sales of physical books

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fellow subsidiaries	825,219	280,121
Associates of the ultimate holding company (Note)	201,639	13,233
Joint venture of the Group	14,406	11,114
Associates of the Group	7,307	6,020
	1,048,571	310,488

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

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fellow subsidiaries	168,778	134,560
Associates of the Group	30,899	29,763
Associates of the ultimate holding company	4,609	6,479
Joint ventures of the Group	2,264	1,763
	206,550	172,565

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 34, the associates of the ultimate holding company represented the companies that are associates of the Company's ultimate holding company Tencent but not the associate of the Group, the related party transactions of which are disclosed separately.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Sale of equity interest in Shenzhen Lazy Online Technology Co., Ltd. (“Lazy Online”)

As of December 31, 2020, the Group owned 40% legal ownership interest of Lazy Online. The Group used the equity method to account for the investment in Lazy Online. On November 25, 2020, the Group entered into a letter of intent to sell all its equity interest in Lazy Online to Tencent Music Entertainment Group, a fellow subsidiary of the Group. The investment in Lazy Online was classified as held for sale asset with carrying amount of nil. In February 2021, the Group sold all of its equity interest in Lazy Online at a total consideration of approximately RMB1,076,817,000, and the difference between the carrying value of held for sale asset and cash consideration was recognised as “other gains/(losses), net” in the consolidated statement of comprehensive income/(loss). Amounts recorded in “other comprehensive income” relating to changes in Lazy Online’s own credit risk of approximately RMB9,911,000 were not recycled in the consolidated statement of comprehensive income/(loss).

(d) Loan facility provided by a fellow subsidiary

In November 2019, one of the Group’s subsidiary, Yueting Information Technology (Shanghai) Co., Ltd. (“Shanghai Yueting”), entered into a two-year loan facility agreement with a subsidiary of Tencent, where a loan facility up to RMB400 million was made available to Shanghai Yueting. As of June 30, 2021, the Group has not utilised any loan facility provided by the fellow subsidiary.

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

	As of June 30, 2021 RMB’000 (Unaudited)	As of December 31, 2020 RMB’000
Trade receivables		
Fellow subsidiaries (Note a)	1,465,396	1,200,975
Associates of the ultimate holding company	122,686	19,327
Associates of the Group	1,133	2,000
Joint ventures of the Group	591	8,446
	1,589,806	1,230,748

Note:

- (a) Trade receivables from fellow subsidiaries are mainly arising from the collection of payments from the Group’s customers on behalf of the Group and license of television series.

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Prepayments, deposits and other receivables		
Fellow subsidiaries	136,157	120,078
Associates of the ultimate holding company	3,799	3,974
Associates of the Group	1,087	1,127
Joint ventures of the Group	–	554
	141,043	125,733

Receivables due from related parties are unsecured, interest-free and repayable on demand. No provisions are made against receivables from related parties.

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000
Trade payables		
Fellow subsidiaries	70,802	25,929
Joint ventures of the Group	7,234	3,288
Associates of the ultimate holding company	2,829	3,019
Associates of the Group	1,023	192
	81,888	32,428

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As of June 30, 2021 RMB' 000 (Unaudited)	As of December 31, 2020 RMB'000
Other payables and accruals		
Fellow subsidiaries	300,703	65,865
Associates of the ultimate holding company	59,490	74,944
Associates of the Group	10,965	2
	371,158	140,811

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

(f) Key management personnel compensation

	Six months ended June 30,	
	2021 RMB' 000 (Unaudited)	2020 RMB'000 (Unaudited)
Salaries, wages and bonuses	2,277	3,397
Other social security costs, housing benefits and other employee benefits	32	102
Pension costs – defined contribution plans	22	16
Share-based compensation expenses	2,967	–
	5,298	3,515

35 SUBSEQUENT EVENTS

The Company adopted a share option plan on May 24, 2021. Under the share option plan a total of 6,024,914 share options to subscribe for shares are granted to certain directors and employees of the Group on July 12, 2021.

On July 22, 2021, a total of 3,220,870 new shares were issued for the purpose of delivering the RSU Awards granted to certain employees of the Group under the 2020 Restricted Share Unit Scheme. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs are vested.

On January 25, 2021, the Group made investment in 36,364,766 ordinary shares of an investee company that is engaged in provision of mobile reading and intellectual property operations at a total consideration of approximately RMB299,282,000, which represented approximately 5% equity interests of the investee. The transaction was completed on July 30, 2021.

DEFINITION

“Administrator”	:	the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board;
“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Award(s)”	:	the RSU(s) granted under the RSU Plan;
“Award Agreement”	:	the agreement evidencing the grant of the Awards;
“Board”	:	the board of Directors of the Company;
“CG Code”	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
“China” or the “PRC”	:	the People’s Republic of China;
“China Literature Pictures”	:	Shanghai Yuewen Media Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司), one of the Consolidated Affiliated Entities of the Company, and a company established in the PRC with limited liability;
“Company”, “our Company”, “the Company” or “China Literature”	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
“COVID-19”	:	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC and worldwide since around January 2020;
“DAUs”	:	daily active users who access our platform through our products or our self-operated channels on Tencent products at least once during the day in question;
“Director(s)”	:	the director(s) of our Company;
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
“HKD”	:	the lawful currency of Hong Kong;

“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IFRS”	:	International Financial Reporting Standards
“IP”	:	intellectual property;
“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Main Board”	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
“MAUs”	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
“Model Code”	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
“MPUs”	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
“New Classics Media” or “NCM”	:	New CClassics 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 and movies;
“reporting period”	:	the six months ended June 30, 2021;
“RMB”	:	the lawful currency of the PRC;
“RSU(s)”	:	restricted stock unit(s);
“RSU Plan”	:	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014;
“SFO”	:	the Securities and Futures Ordinance

DEFINITION

“SGD”	:	the lawful currency of Singapore;
“Share(s)”	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
“Shareholders”	:	holder(s) of our Share(s);
“Shenzhen Lanren” or “Lazy Online”	:	Shenzhen Lanren (Lazy) Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012;
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Tencent”	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700);
“Tencent Comics”	:	Shenzhen Tencent Comics Co., Ltd. (深圳市騰訊動漫有限公司), a company established in the PRC on September 19, 2006;
“Tencent Pictures”	:	Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary of Tencent;
“THB”	:	Thai Baht, the lawful currency of Thailand; and
“USD”	:	the lawful currency of the United States.

