

# China Literature

## 2021 Annual Results

March 22, 2022



# Disclaimer

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

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

# 2021 Annual Results Summary

## IFRS Measures

- **Revenues up 1.7% YoY from RMB8.5 bn to RMB8.7 bn (USD1.4 bn<sup>1</sup>)**
  - Online business revenues up 9.6% from RMB4.8 bn to RMB5.3 bn (USD832.6 mn)
  - IP operations and others revenues up 30.0% from RMB1.6 bn to RMB2.1 bn (USD336.1 mn), excluding revenues of New Classics Media
- **Gross profit up 8.6% YoY from RMB4.2 bn to RMB4.6 bn (USD721.4 mn)**
- **Operating profit was RMB2.2 bn (USD340.8 mn), compared to operating loss of RMB4.5 bn in 2020**
- **Net profit to shareholders was RMB1.8 bn (USD289.6 mn), compared to net loss to shareholders of RMB4.5 bn in 2020**

## Non-IFRS Measures

- **Non-IFRS operating profit up 39.1% YoY from RMB934.6 mn to RMB1.3 bn (USD203.9 mn)**
- **Non-IFRS net profit to shareholders up 34.1% YoY from RMB917.1 mn to RMB1.2 bn (USD192.9 mn)**

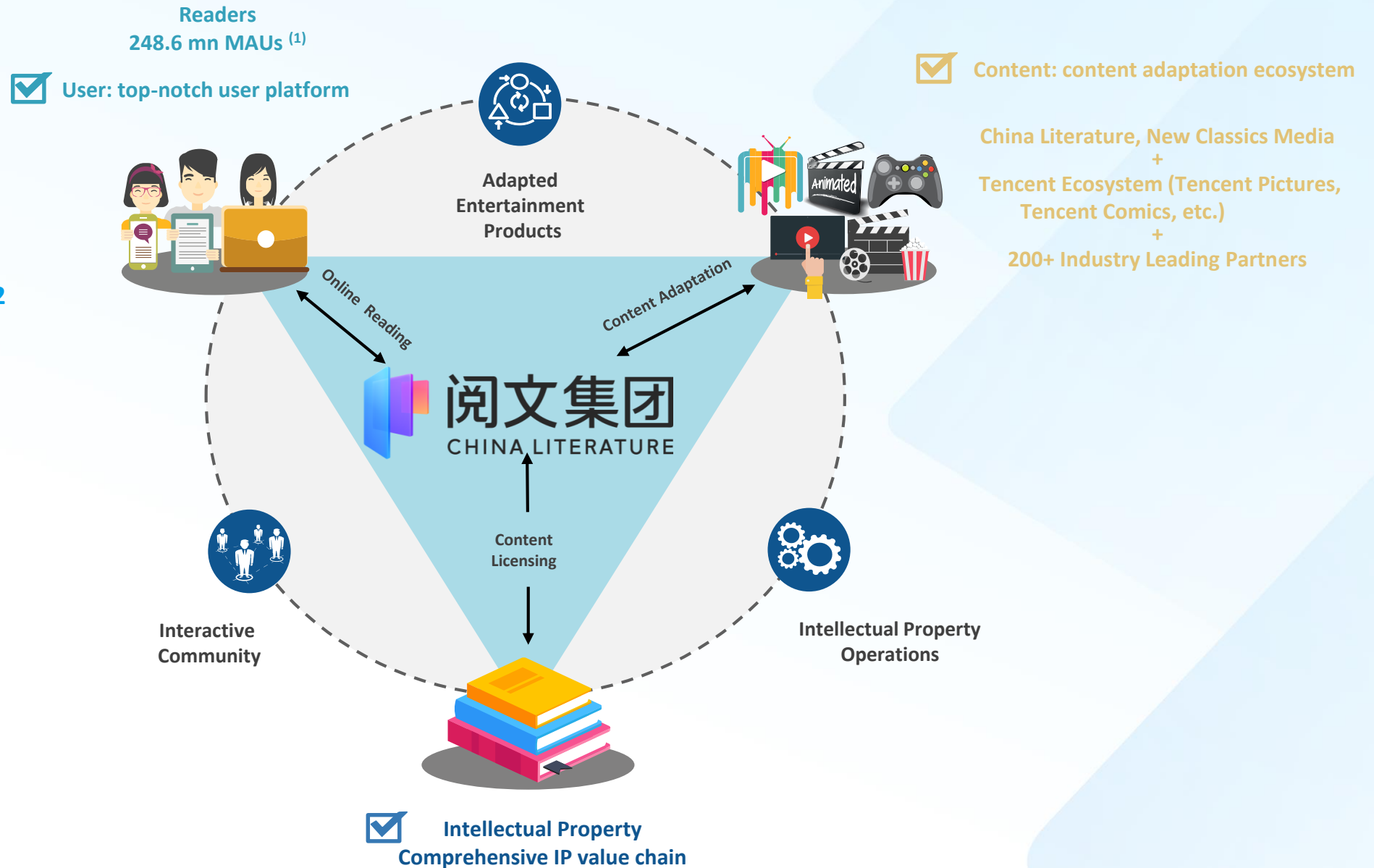
## User Base

- **Total MAU up 8.6% YoY to 248.6 mn**
- **Monthly ARPU for paid reading content up 14.4% YoY to RMB39.7**

Note:  
(1) Figures stated in USD are based on USD1 to RMB6.3757.

# Continued Expansion of Online Reading and IP Ecosystem

- Total writers increased by **700 thousand** in 2021.
- Total works increased by **1.2 mn** in 2021
- Around **36 billion** Chinese characters were added in 2021



Notes:  
(1) Stands for average monthly active users during 2021.

## IP Creation: Literature Business

- **In 2021, the reading platform added:**
  - ✓ 700,000 writers
  - ✓ 1.2 million literary works
  - ✓ 36 billion Chinese characters
- **Generation Z writers showed outstanding performances:**
  - ✓ 80% of 2021 new writers were born after 1995
  - ✓ 5 out of top 12 new writers in 2021 are aged under 27
- **International presence expanded with WebNovel offering:**
  - ✓ ~ 2,100 works translated from Chinese
  - ✓ ~ 370,000 original content works created locally

## Visualization of IP: Tell Our Stories Visually with Numerous Blockbusters

### • Drama series:

- ✓ A Lifelong Journey (人世间): set an **8-year record** in CCTV-1 prime time ratings, **No.1** on Enlightent's drama series playlist in Feb 2022, licensed to Disney for overseas broadcasting
- ✓ My Heroic Husband (赘婿): **No. 1** on Enlightent's drama series playlist in Feb & Mar 2021, licensed to Korea's Watcha for a live-action adaptation
- ✓ Soul Land (斗罗大陆): **~6 bn** video views, **No. 2** on Enlightent's drama series playlist in Feb 2021
- ✓ The Rebel (叛逆者): **No. 2** on Enlightent's drama series playlist in Jun 2021
- ✓ Sword Snow Stride (雪中悍刀行): **~7 bn** video views, **No. 1** viewership for drama series on Tencent Video in 2021

### • Films:

- ✓ Hi, Mom (你好李焕英): **RMB5.4 bn** box office, **3rd-highest** ranking box office sales in the history of China's film industry
- ✓ Too Cool to Kill (这个杀手不太冷静): **RMB2.6 bn** box office, **2nd-highest** sales in 2022 Spring Festival period

## Visualization of IP: Tell Our Stories Visually with Numerous Blockbusters

### • Animations:

- ✓ Battle Through the Heavens (斗破苍穹) Season 4 + special episode Three-Year Promise (三年之约): 4+ bn video views, bringing 10+ bn total video views for this franchise
- ✓ Stellar Transformations (星辰变) : 3+ bn total video views for this franchise

### • Comics:

- ✓ A 3-year joint project with Tencent Comics to adapt 300 online literary works into comics: 100+ comics launched as of late 2021
- ✓ Partner with Kuaikan Comics and Bilibili Comics on comic works distribution
- ✓ Top-tier titles on the way: Dafeng Guardian (大奉打更人) hit 100,000 favorite views within 44 hours after release

### • Online games:

- ✓ Top IPs licensed for adaptation: Lord of the Mysteries (诡秘之主), A Record of a Mortal's Journey to Immortality (凡人修仙传), My Heroic Husband (赘婿), etc.

## Commercialization of IP: Theme Characters and IP Merchandise

- **Focused on building the foundation for long term development**
  - ✓ Established fundamental capabilities such as IP planning, image database, and design capacity of IP merchandise
  - ✓ Selectively worked with partners in consumer goods, fashion toys and retail sectors to kick off pilot projects

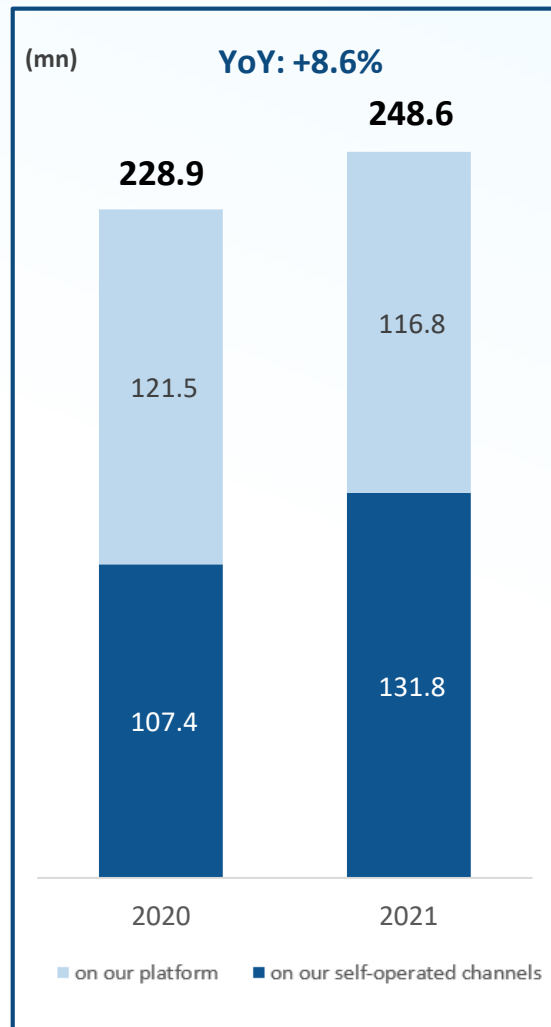
## Passing on IP from Generation to Generation

- **Company mission: to create stories that will never end**
  - ✓ Help the best stories continue to emerge from our literary platform and become the source of quality IP
  - ✓ Pass on our best stories by adapting them into various media formats and developing IP merchandise, so they become the shared memory of generations of people
- **Develop IP sequels across media formats**
  - ✓ Classic IPs with 10+ years' history: Joy of Life (庆余年), My Heroic Husband (赘婿), Soul Land (斗罗大陆), Battle Through the Heavens (斗破苍穹), The King's Avatar (全职高手), etc.
  - ✓ New IPs: Dafeng Guardian (大奉打更人), Lord of the Mysteries (诡秘之主), etc.

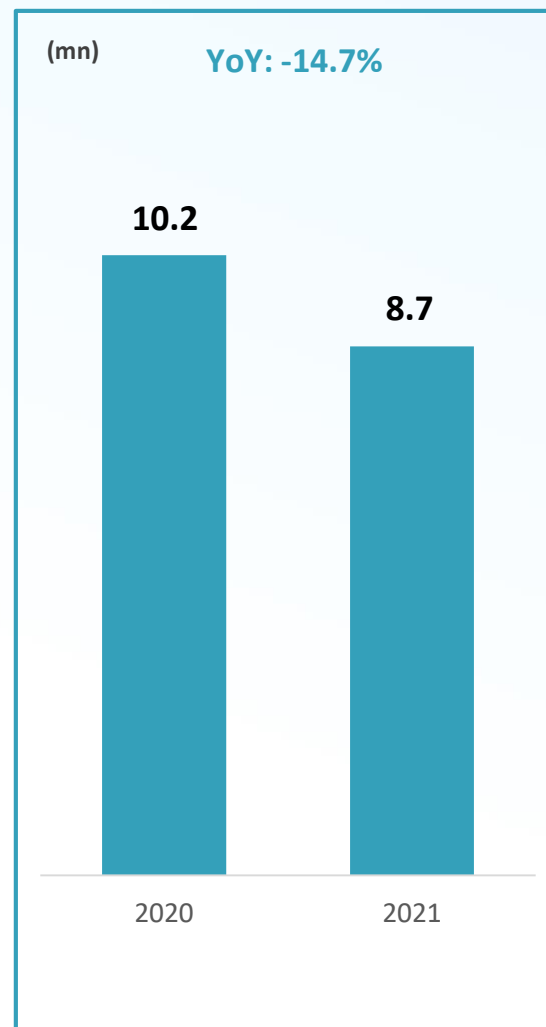


# Financials: Key Operating Metrics

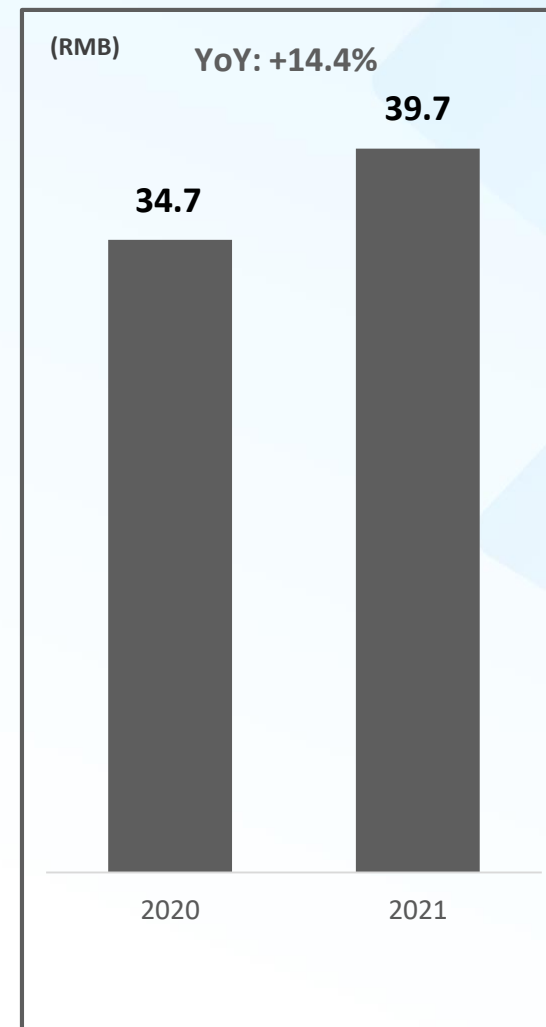
MAUs <sup>(1)</sup>



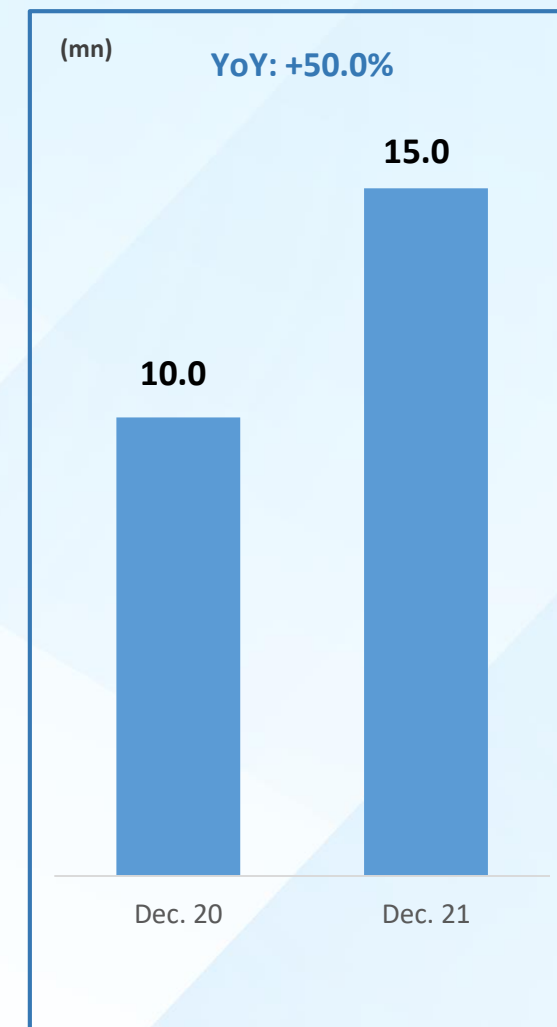
MPUs for Paid Reading <sup>(2)</sup>



Monthly ARPU for Paid Reading <sup>(3)</sup>



DAUs for Free Reading <sup>(4)</sup>



Notes:

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

# Financials: Income Statement

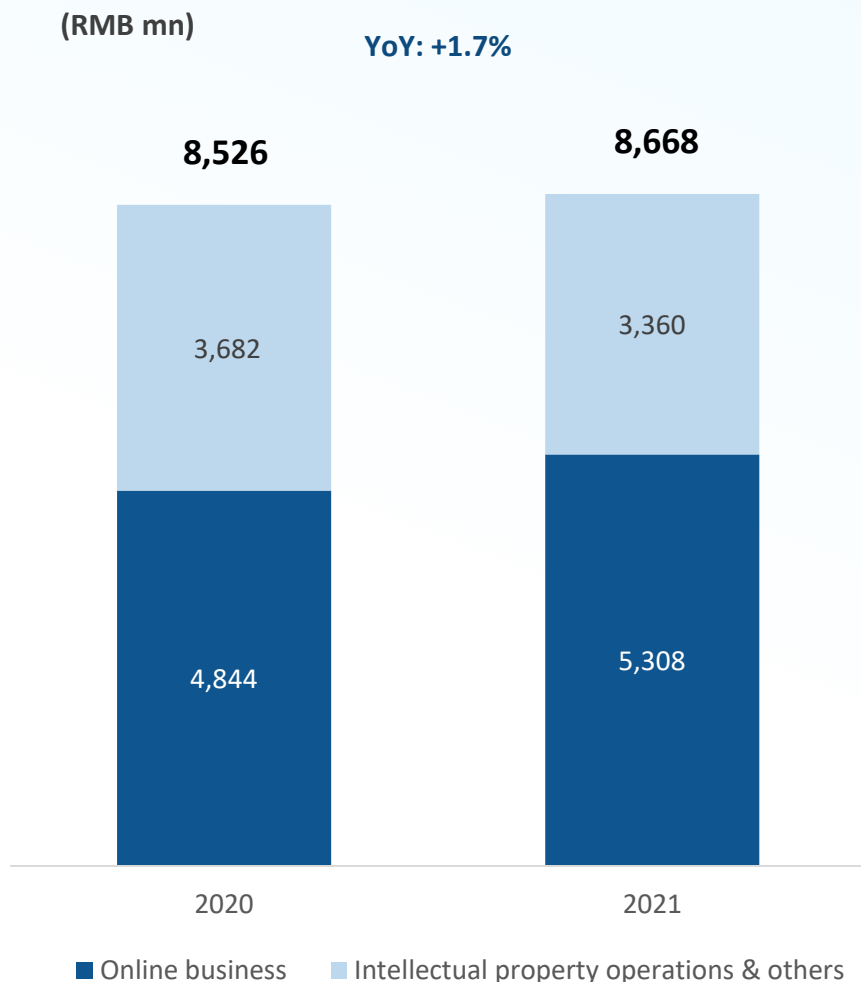
RMB'000	2020	2021	YoY
<b>Revenues</b>	8,525,701	8,668,244	1.7%
<b>Cost of revenues</b>	(4,291,625)	(4,068,801)	(5.2%)
<b>Gross profit</b>	4,234,076	4,599,443	8.6%
Interest income	116,315	125,353	7.8%
Other gains/(losses), net <sup>(1)</sup>	(5,322,903)	1,448,083	N/A
Selling and marketing expenses	(2,498,187)	(2,700,814)	8.1%
General and administrative expenses	(873,766)	(1,323,845)	51.5%
Net reversal of/(provision for) impairment losses on financial assets	(130,203)	24,420	N/A
<b>Operating profit/(loss)</b>	(4,474,668)	2,172,640	N/A
Finance costs	(68,785)	(68,763)	(0.0%)
Share of net profit of associates and joint ventures	4,733	199,191	4,108.6%
Income tax (expense)/benefit	38,523	(460,141)	N/A
<b>Net profit/(loss) to shareholders</b>	(4,483,869)	1,846,609	N/A
<b>Non-IFRS net profit to shareholders</b>	917,105	1,229,721	34.1%

Note:

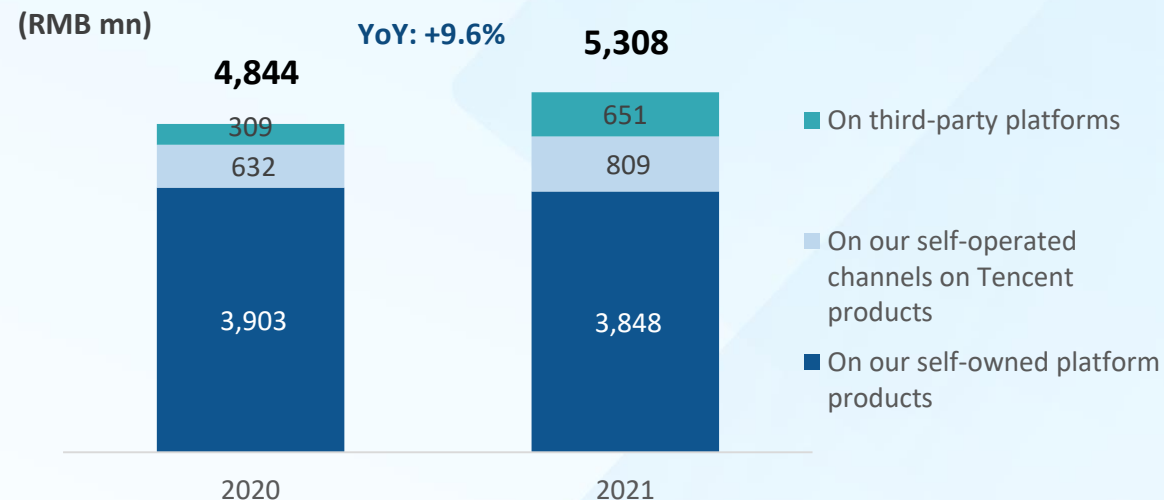
(1) The other gains in 2021 consisted mainly of i) gains of RMB1.3 billion related to the sale of our equity interest in investee companies, ii) gains of RMB134.0 million on disposal of certain intangible assets, iii) government subsidies of RMB110.7 million, and iv) fair value gains of RMB50.3 million resulting from increased valuations of investee companies. These gains were partially offset by a fair value loss of RMB158.3 million due to a change in fair value of consideration liabilities related to the acquisition of NCM.

# Financials: Revenue Structure

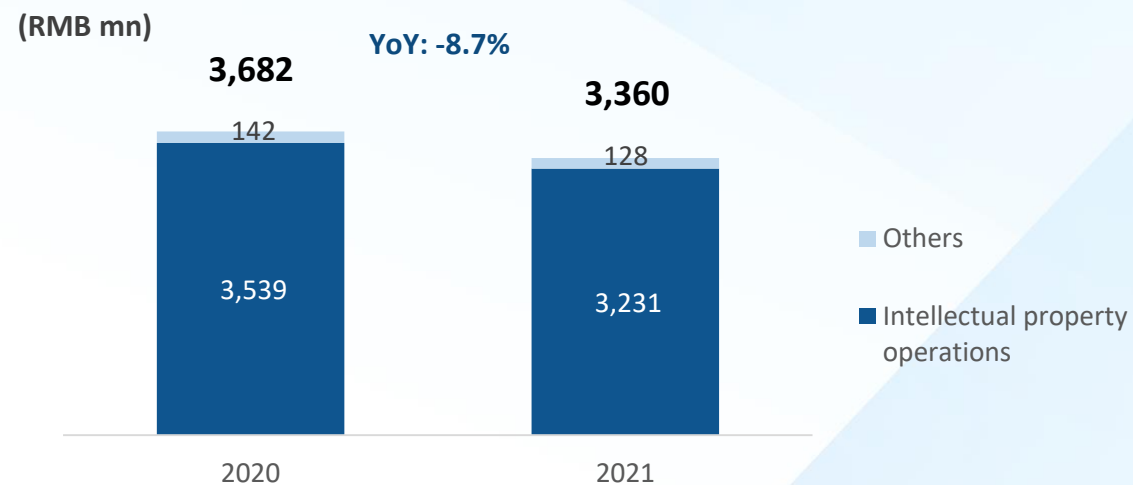
## Revenues by Segment <sup>(2)</sup>



## Online Business Revenues Breakdown <sup>(1)(2)</sup>



## Intellectual Property Operations & Others Revenues Breakdown <sup>(1)(2)</sup>



Note:

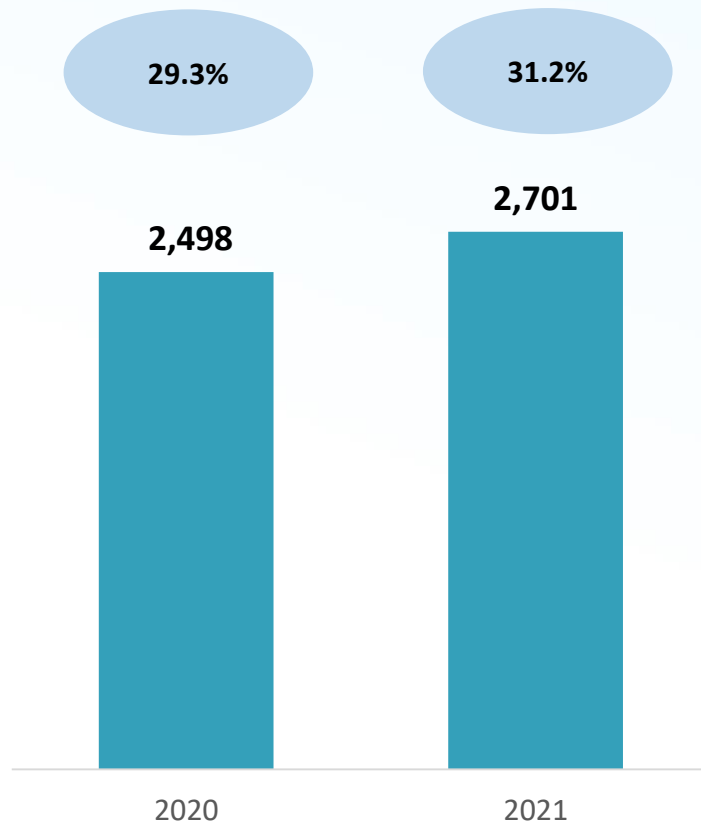
(1) Starting from January 1, 2021, revenues from online audio books and online comic content provided via Tencent and third-party platforms have been reclassified from “online business” segment to “intellectual property operations and others” segment to better reflect the Company’s current businesses.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

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

# Financials: Operating Expenses

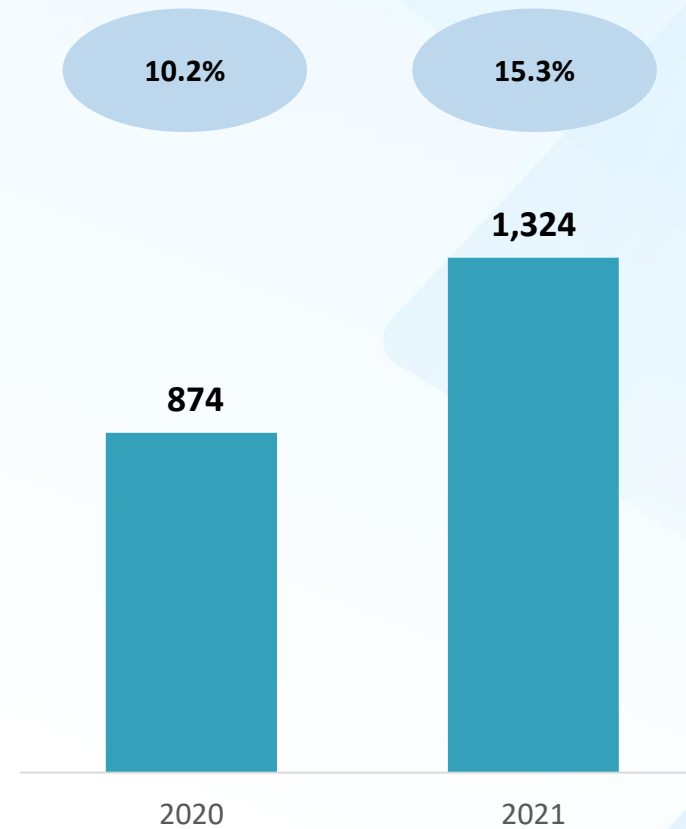
## Selling & Marketing Expenses

as % of total revenue, total amount in RMB mn



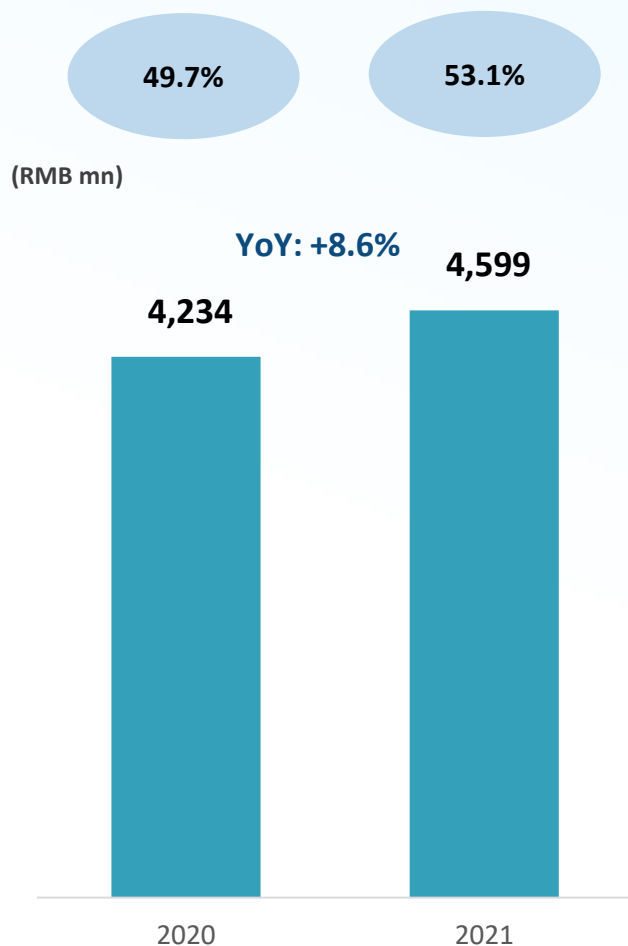
## General & Administrative Expenses

as % of total revenue, total amount in RMB mn

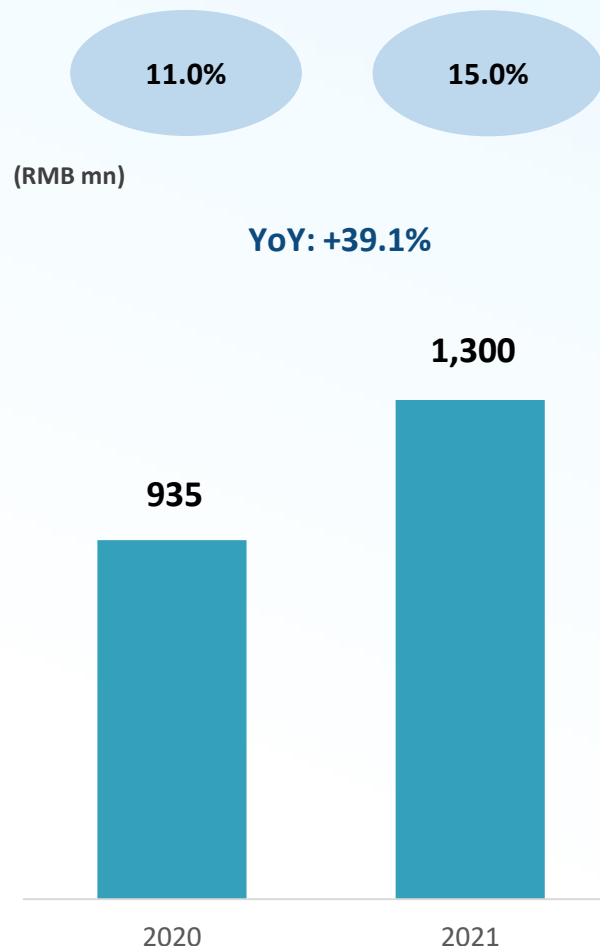


# Financials: Key Profitability Metrics

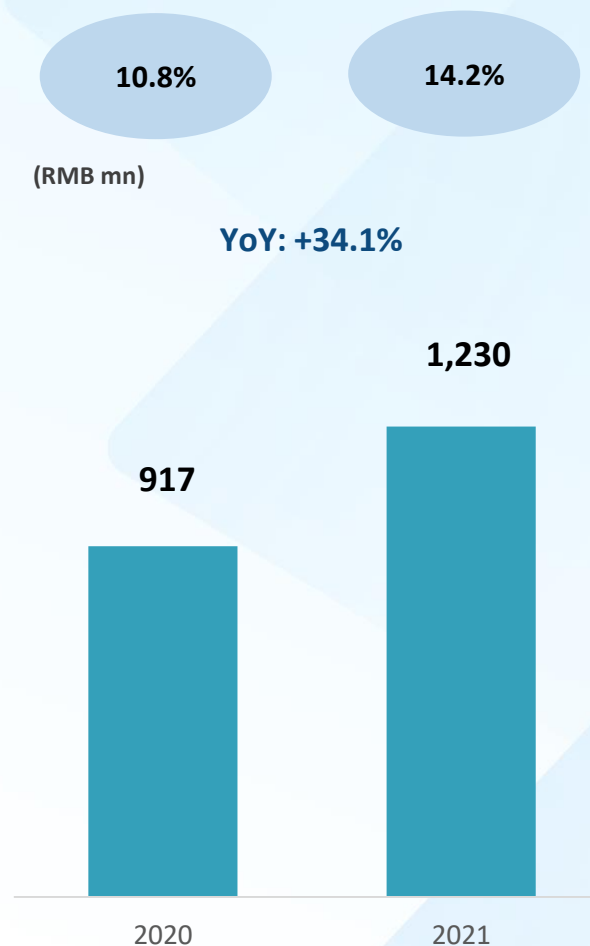
## Gross Profit and Gross Margin



## Non-IFRS Operating Profit and Operating Margin<sup>(1)</sup>



## Non-IFRS Net Profit to Shareholders and Net Profit to Shareholders Margin<sup>(1)</sup>



Note:  
(1) Figures under Non-IFRS measures.

# Financials: Non-IFRS Profitability

(RMB'000)	2020	2021	YoY
<b>EBITDA</b>	<b>1,033,839</b>	<b>1,094,005</b>	<b>5.8%</b>
<i>Margin %</i>	<i>12.1%</i>	<i>12.6%</i>	
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>1,029,692</b>	<b>1,335,815</b>	<b>29.7%</b>
<i>Margin %</i>	<i>12.1%</i>	<i>15.4%</i>	
<b>Operating profit/(loss)</b>	<b>(4,474,668)</b>	<b>2,172,640</b>	<b>N/A</b>
<i>Margin %</i>	<i>(52.5%)</i>	<i>25.1%</i>	
<b>Non-IFRS operating profit <sup>(2)</sup></b>	<b>934,602</b>	<b>1,299,845</b>	<b>39.1%</b>
<i>Margin %</i>	<i>11.0%</i>	<i>15.0%</i>	
<b>Net profit/(loss) to shareholders</b>	<b>(4,483,869)</b>	<b>1,846,609</b>	<b>N/A</b>
<i>Margin %</i>	<i>(52.6%)</i>	<i>21.3%</i>	
<b>Non-IFRS net profit to shareholders <sup>(3)</sup></b>	<b>917,105</b>	<b>1,229,721</b>	<b>34.1%</b>
<i>Margin %</i>	<i>10.8%</i>	<i>14.2%</i>	

Notes:

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

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

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

# Thank You

