

China Literature

2022 Interim Results

August 15, 2022



Disclaimer

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

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

2022 Interim Results Summary

IFRS Measures

- **Revenues were RMB4.1 bn (USD609.0 mn¹), compared with RMB4.3 bn in 1H21**
 - **Online business revenues were RMB2.3 bn (USD343.7 mn), compared with RMB2.5 bn in 1H21**
 - **IP operations and others revenues were RMB1.8 bn (USD265.2 mn), compared with RMB1.8 bn 1H21**
- **Operating profit was RMB251.2 mn (USD37.4 mn), compared with RMB1.3 bn in 1H21. The difference was mainly due to a gain of RMB1.1 bn related to the sale of our stake in a JV in 1H21**
- **Net profit to shareholders was RMB228.5 mn (USD34.1 mn), compared with RMB1.1 bn in 1H21**

Non-IFRS Measures

- **Non-IFRS operating profit up 8.2% YoY from RMB641.5 mn to RMB693.8 mn (USD103.4 mn); operating margin up from 14.8% to 17.0%**
- **Non-IFRS net profit to shareholders up 0.2% from RMB665.0 mn to RMB666.0 mn (USD99.2 mn); margin up from 15.3% to 16.3%**

User Base

- **Total MAU up 13.8% YoY to 264.7 mn**

Note:
(1) Figures stated in USD are based on USD1 to RMB6.7114.

Business Overview: Highlights from CEO

Implementation of cost control and efficiency improvement measures

- The volatility of the market forced us to adopt a more forward-thinking and flexible approach. We took initiatives to optimize costs and improve efficiency, and sharpened our focus on key business and long-term objectives. Our operational efficiency improved significantly as a result.

Release of high-quality content

- Released compelling visual content including drama series A Lifelong Journey (人世间), Life is A Long Quiet River (心居), The Wind Blows from Longxi (风起陇西) and Master of My Own (请叫我总监), the film Too Cool to Kill (这个杀手不太冷静), as well as a number of exciting animated series.
- Continuous release of high-quality content, particularly blockbusters, reflected the depth of our resources for transforming literary content into video and other formats, supporting our long-term strategy of IP adaptation to visual modes.

Enhanced anti-piracy efforts

- As an important part of improving the content ecosystem, we enhanced our copyright protection and anti-piracy efforts, which were widely recognized by our writers.

Commitment to the long-term strategy

- Our long-term strategy remains unchanged. We will continue to focus on the incubation, development and operation of good stories that can live forever.

Growing Online Reading Ecosystem

Abundant content supply supported by the enlarging writer pool and content library:

- ~ 300,000 writers, 600,000 literary works and 16 billion Chinese characters were added in 1H22

Acceleration in the development of high-quality content in science fiction theme:

- two science fiction writing contests and a series of activities were organized
- ~ 20,000 science fiction works were incubated including content created by well-known writers in other thematic areas
- Science fiction is now the fastest growing genre on our platform

Continuous expansion of international presence with WebNovel offering:

- ~ 2,600 works translated from Chinese and 420,000 original content works created locally

Enhancement in our efforts to combat piracy issues:

- Comprehensive techniques were deployed to improve our copyright protection and anti-piracy capabilities
- Continuous litigations against piracy sites and IP infringement were lodged
- Enhanced trust from writers

Top-Tier Drama Series and Film



A Lifelong Journey

- Set an **8-year record** in CCTV-1 prime time drama series ratings
- **1st** in all charts across the internet



Life is A Long Quiet River

- **1st** local TV prime time drama series ratings nationwide in 1H22
- **2nd** in iQIYI's popularity list for drama series in 1H22



The Wind Blows from Longxi

- An innovative exploration of the theme of ancient spycraft
- A score of **8.1** on the Douban platform



Master of My Own

- **1st** for local TV prime time drama series ratings nationwide
- **1st** in Youku's hot drama series list during its broadcast period



Too Cool To Kill

- **RMB2.6 bn** box office
- **2nd** in box office sales in 2022 Spring Festival period

Compelling Animation and Comics



**Stellar Transformations
Season 4**

- **4 bn** video views for the entire animation series



**Martial Universe
Season 3**

- **3 bn** video views for the entire animation series

11 out of 20 mostly watched domestic animation series on Tencent Video in 1H22 were adapted from China Literature's IP (Source: Gudu)

- 3-year joint project with Tencent Comics to adapt 300 online literary works into comics: launched **170+** comic works
- Blockbusters titles: Dafeng Guardian (大奉打更人), The First Sequence (第一序列), Start with a Mountain (开局一座山), etc.



Theme Characters and IP Merchandise

Continued to build the foundation for long term development

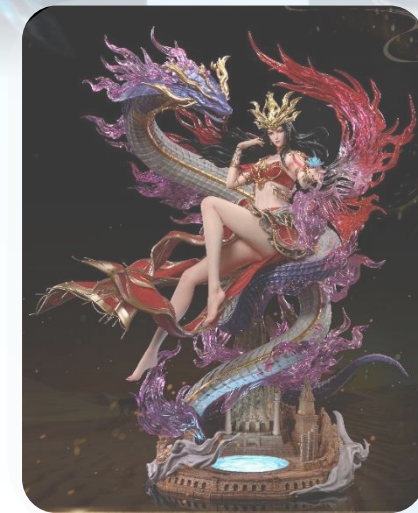
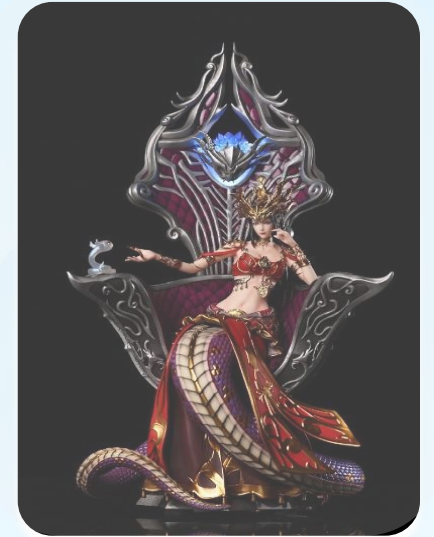
- Shortened the conversion time from IP to offline products
- Expanded the number of IP and product types
- Achieved breakthroughs in theme, product style and design

A licensed toy sculpture “Medusa”

- Main character from Battle Through the Heavens (斗破苍穹)
- Sold out immediately after the pre-sale launch
- GMV of **RMB5 million**

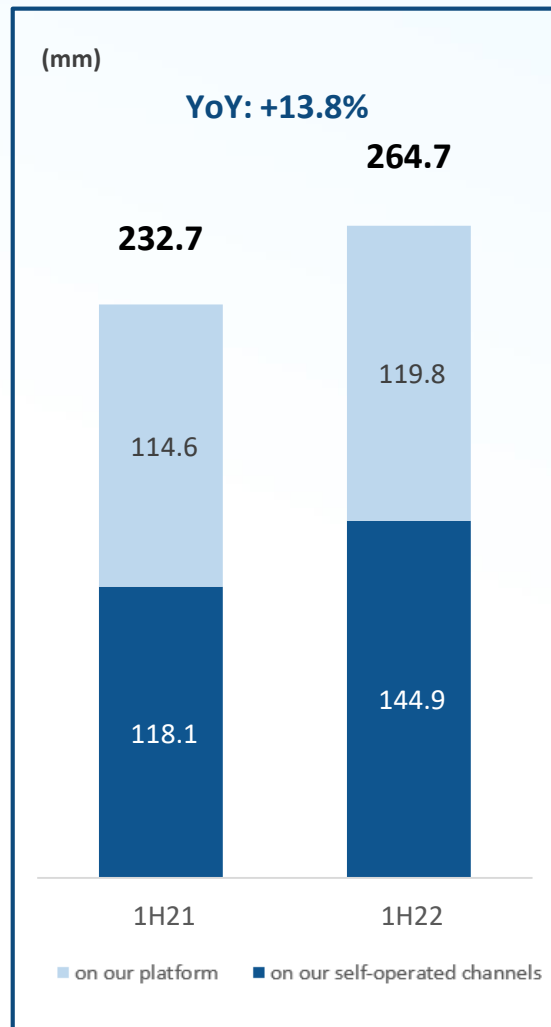
More IP derivative products to be developed

- Joy of Life (庆余年)
- Lord of the Mysteries (诡秘之主)
- The King’s Avatar (全职高手)
- Candle in the Tomb (鬼吹灯)

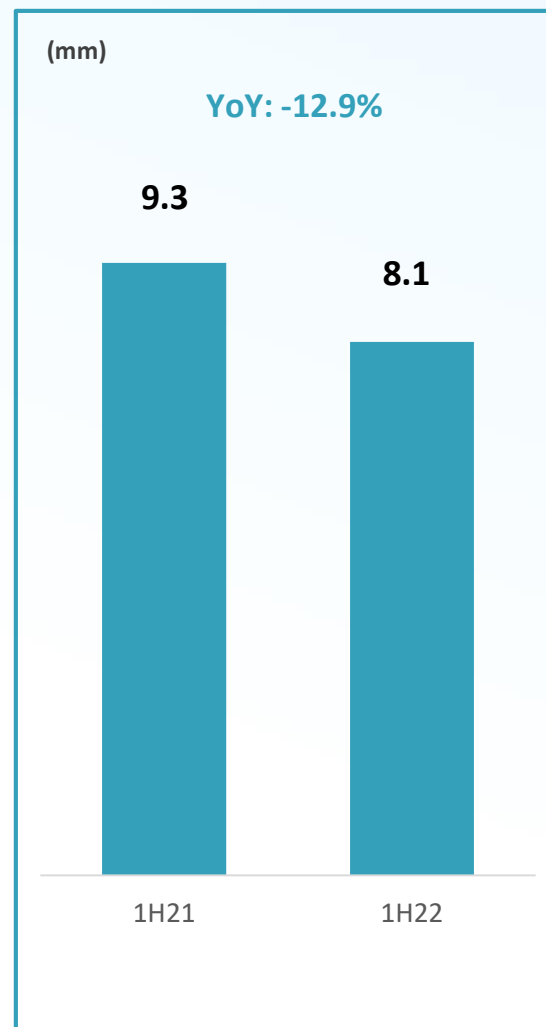


Financials: Key Operating Metrics

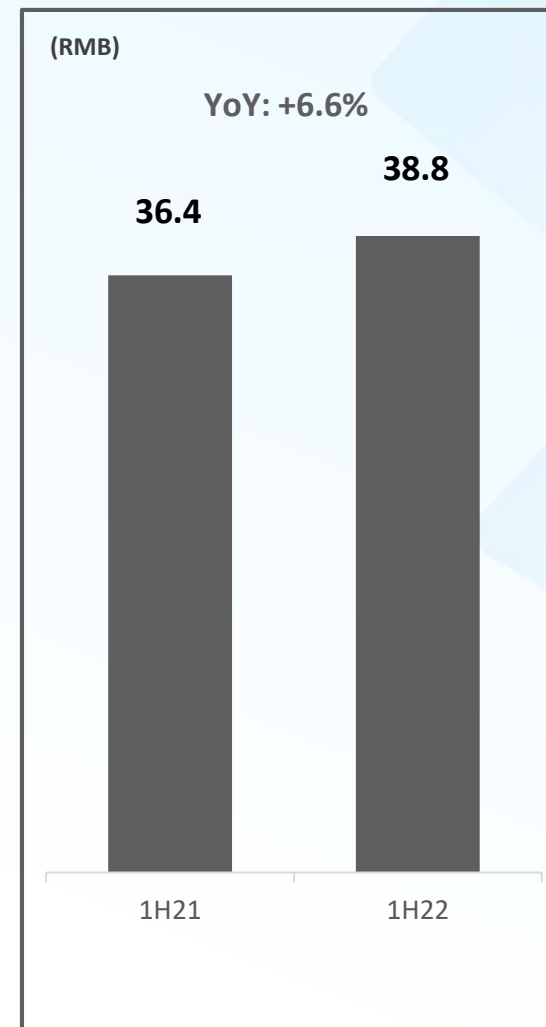
MAUs ⁽¹⁾



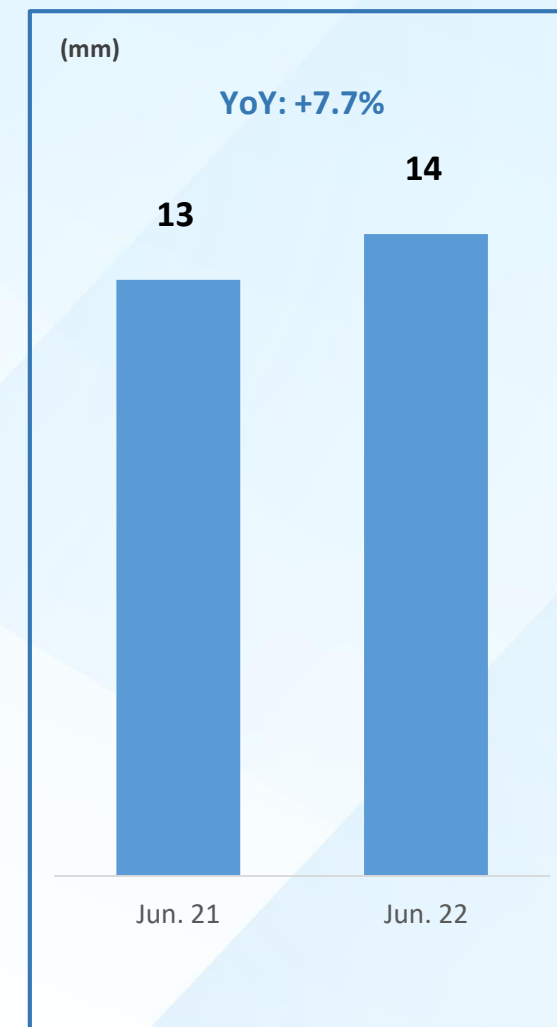
MPUs for Paid Reading ⁽²⁾



Monthly ARPU for Paid Reading ⁽³⁾



DAUs for Free Reading ⁽⁴⁾



Notes:

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

Financials: Income Statement

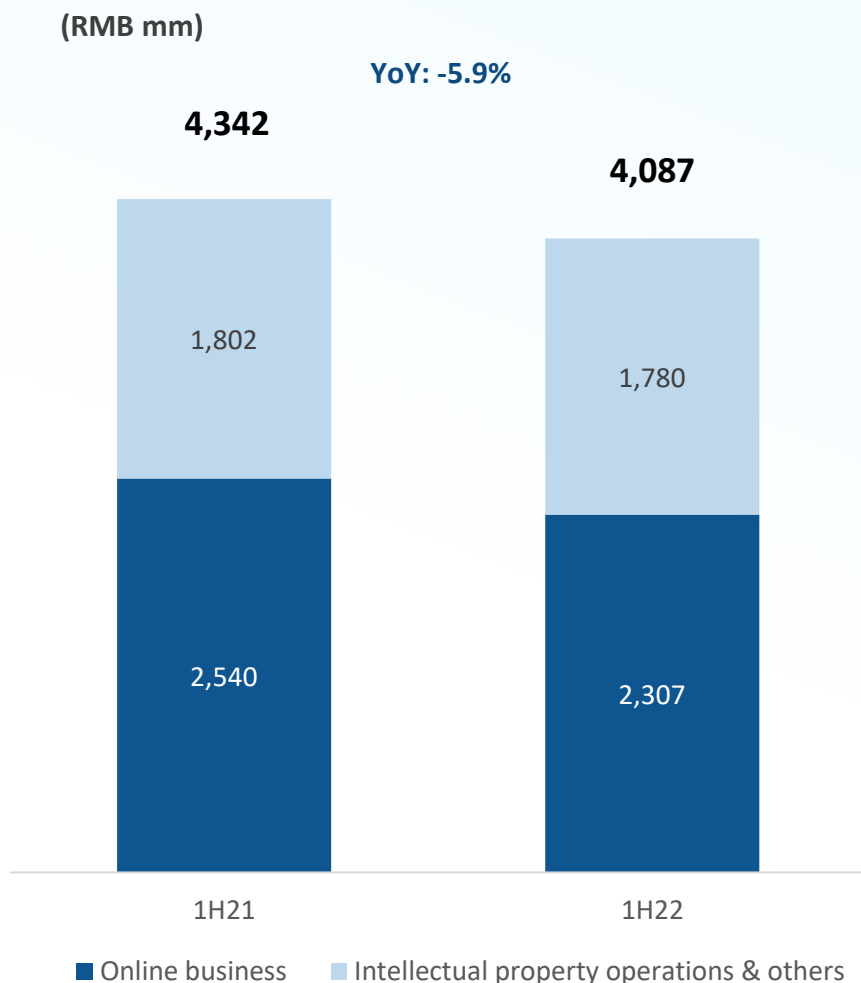
RMB'000	1H21	1H22	YoY
Revenues	4,342,146	4,087,214	(5.9%)
Cost of revenues	(2,054,081)	(1,940,888)	(5.5%)
Gross profit	2,288,065	2,146,326	(6.2%)
Interest income	60,617	68,855	13.6%
Other (losses)/gains, net ⁽¹⁾	901,146	(235,409)	N/A
Selling and marketing expenses	(1,348,209)	(1,110,501)	(17.6%)
General and administrative expenses	(635,087)	(557,530)	(12.2%)
Net (provision for)/reversal of impairment losses on financial assets	17,468	(60,532)	N/A
Operating profit	1,284,000	251,209	(80.4%)
Finance costs	(34,561)	(31,604)	(8.6%)
Share of net profit of associates and joint ventures	115,939	120,831	4.2%
Income tax expense	(284,428)	(108,160)	(62.0%)
Net profit to shareholders	1,082,742	228,545	(78.9%)
Non-IFRS net profit to shareholders	664,989	665,995	0.2%

Note:

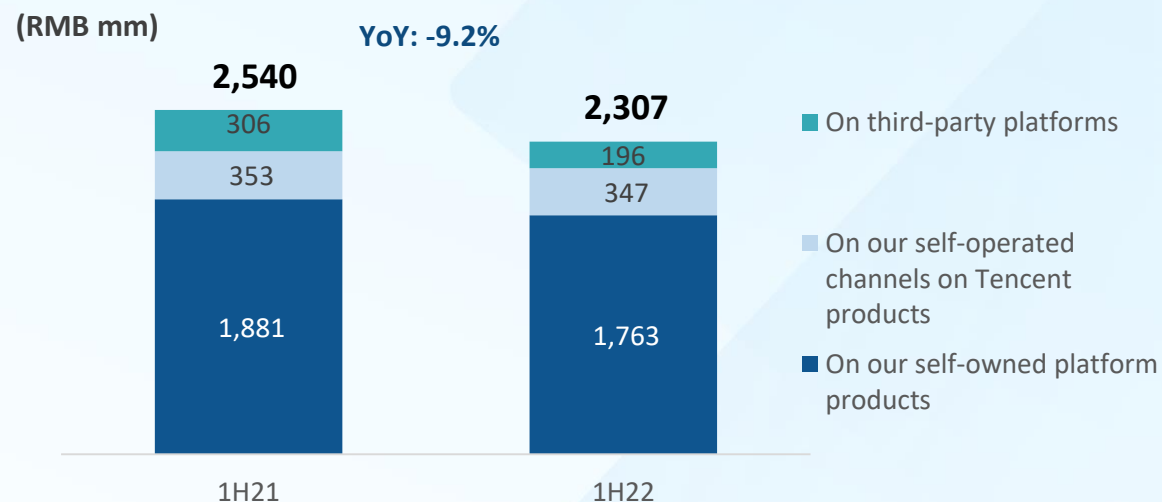
1) The other losses in 1H22 consisted mainly of fair value losses of RMB372.9 mn due to the decreased valuations of investee companies, partially offset by a fair value gain of RMB112.2 mn due to a change in the fair value of consideration liabilities related to the acquisition of New Classics Media.

Financials: Revenue Structure

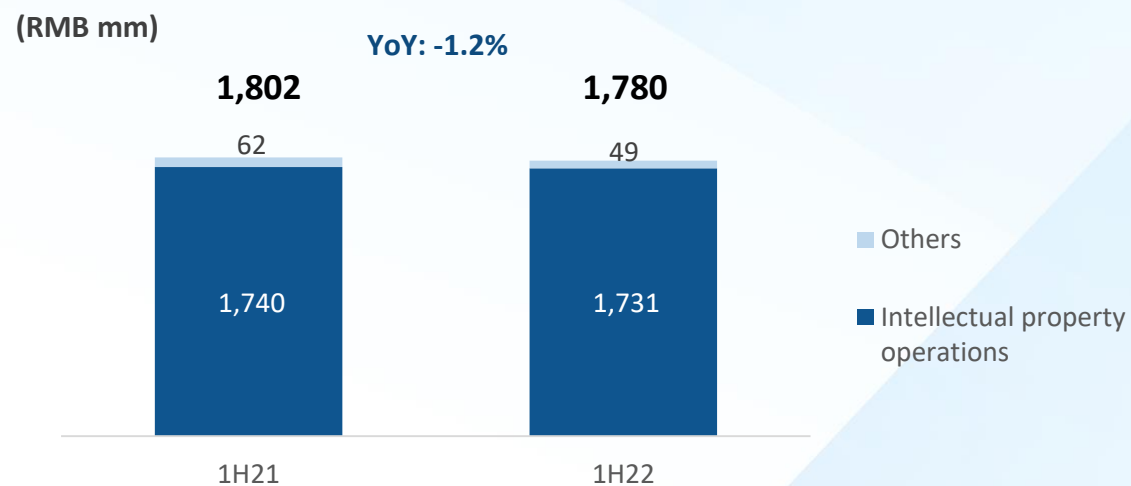
Revenues by Segment ⁽¹⁾



Online Business Revenues Breakdown ⁽¹⁾



Intellectual Property Operations & Others Revenues Breakdown ⁽¹⁾

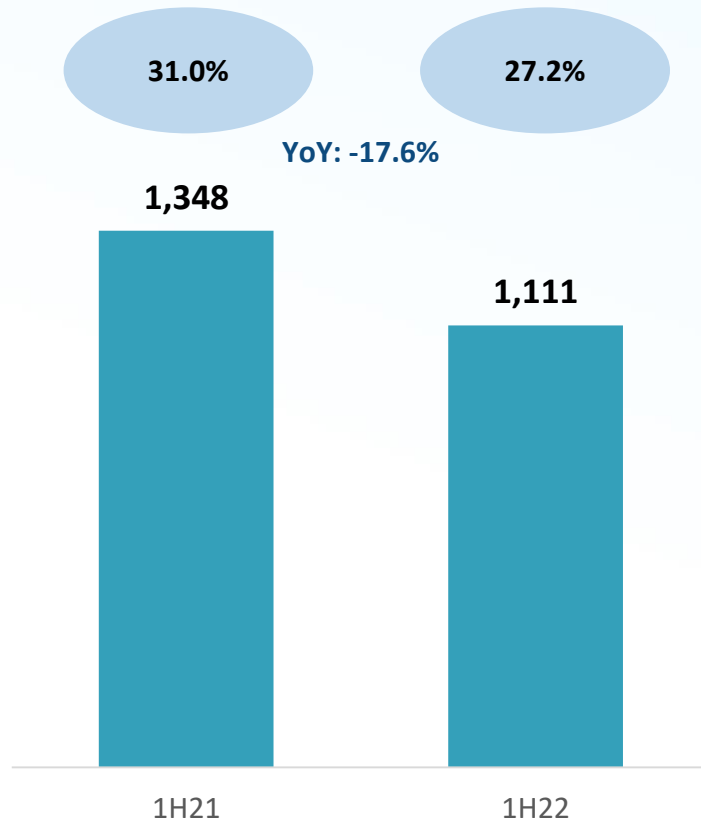


Note:
 (1) Certain figures have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures shown in the breakdown items.

Financials: Operating Expenses

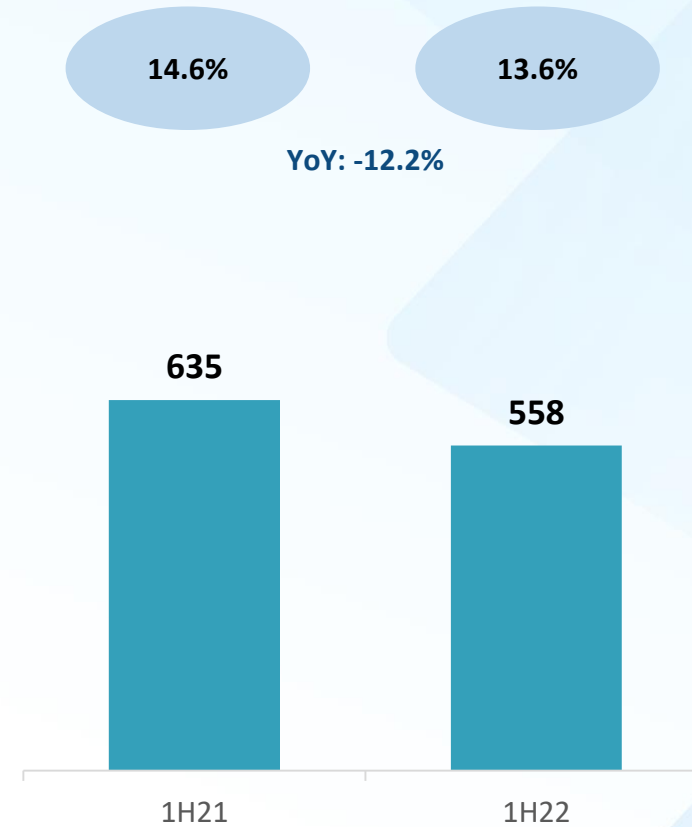
Selling & Marketing Expenses

as % of total revenue, total amount in RMB mm



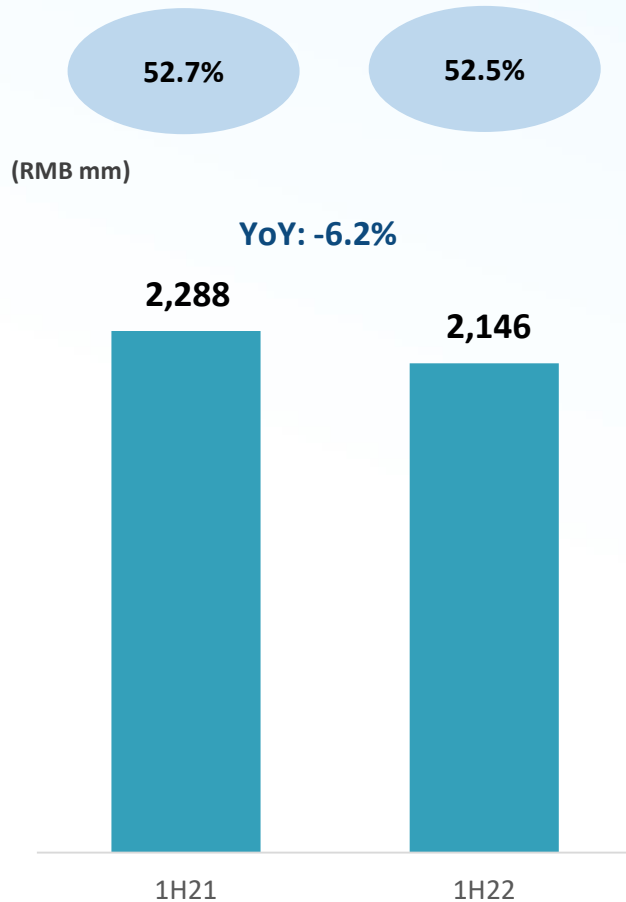
General & Administrative Expenses

as % of total revenue, total amount in RMB mm

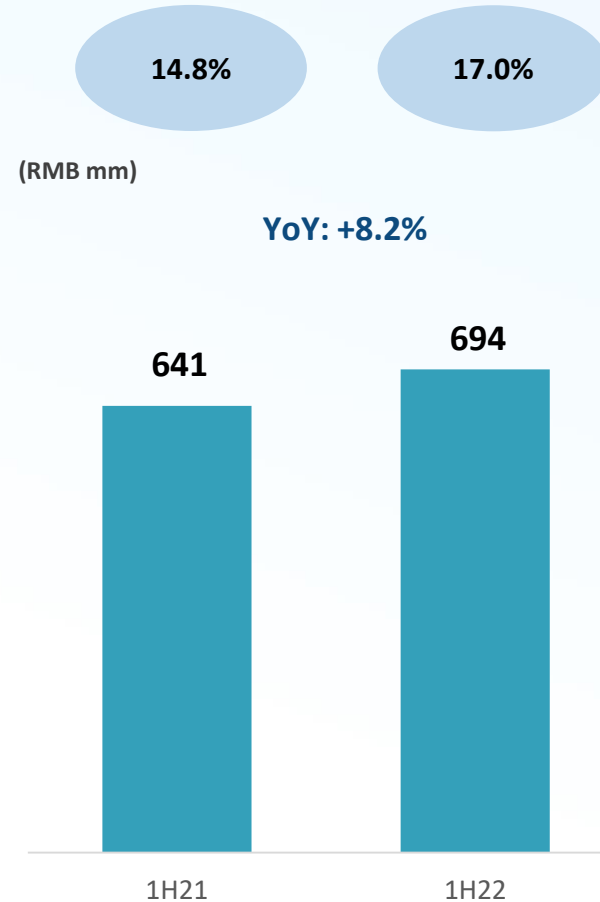


Financials: Key Profitability Metrics

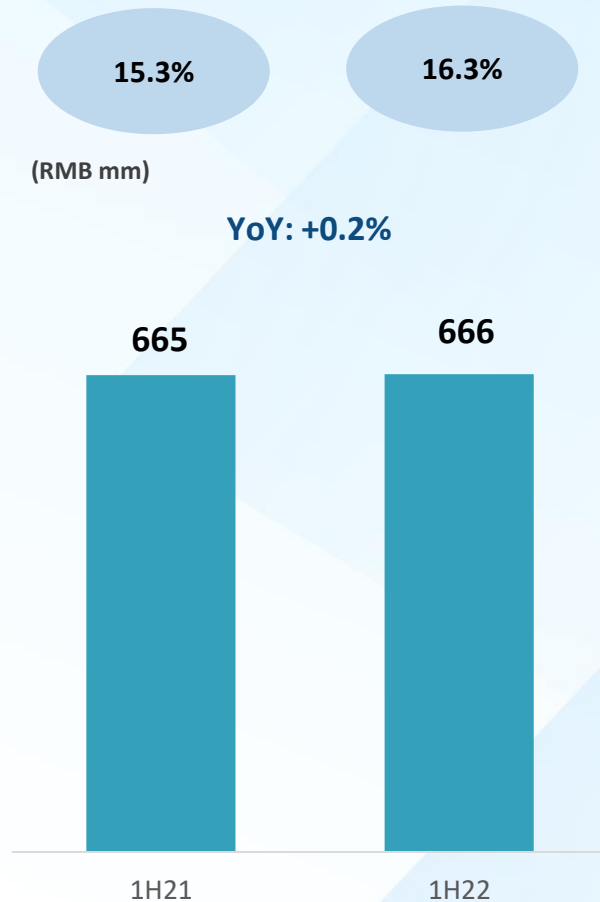
Gross Profit and Gross Margin



Non-IFRS Operating Profit and Operating Margin⁽¹⁾



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



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

Financials: Non-IFRS Profitability

(RMB'000)	1H21	1H22	YoY
EBITDA	626,859	600,560	(4.2%)
<i>Margin %</i>	14.4%	14.7%	
Adjusted EBITDA ⁽¹⁾	708,887	745,058	5.1%
<i>Margin %</i>	16.3%	18.2%	
Operating profit	1,284,000	251,209	(80.4%)
<i>Margin %</i>	29.6%	6.1%	
Non-IFRS operating profit ⁽²⁾	641,460	693,824	8.2%
<i>Margin %</i>	14.8%	17.0%	
Net profit to shareholders	1,082,742	228,545	(78.9%)
<i>Margin %</i>	24.9%	5.6%	
Non-IFRS net profit to shareholders ⁽³⁾	664,989	665,995	0.2%
<i>Margin %</i>	15.3%	16.3%	

Notes:

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

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

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

Good Stories Never End