

China Literature

2023 Interim Results

August 10, 2023



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.

2023 Interim Results Summary

IFRS Measures

- **Revenues** were **RMB3.3 bn (USD454.3 mn¹)**, compared with RMB4.1 bn in 1H22
 - **Online business revenues** were **RMB2.0 bn (USD282.1 mn)**, compared with RMB2.3 bn in 1H22
 - **IP operations and others revenues** were **RMB1.2 bn (USD172.2 mn)**, compared with RMB1.8 bn 1H22
- **Operating profit** increased **23.8% YoY** from RMB251.2 mn to **RMB310.9 mn (USD43.0 mn)**. **Operating margin** increased from 6.1% to **9.5%**
- **Net profit to shareholders** increased **64.8%** from RMB228.5 mn to **RMB376.7 mn (USD52.0 mn)**. **Profit margin to shareholders** increased from 5.6% to **11.5%**

Non-IFRS Measures

- **Non-IFRS operating profit** was **RMB545.8 mn (USD75.5 mn)**, compared with RMB693.8 mn in 1H22. **Non-IFRS operating margin** was **16.6%**, compared with 17.0% in 1H22
- **Non-IFRS net profit to shareholders** was **RMB603.1 mn (USD83.5 mn)**, compared with RMB666.0 mn in 1H22. **Non-IFRS profit to shareholders margin** increased from 16.3% to **18.4%**

Note:
(1) Figures stated in USD are based on USD1 to RMB7.2258.

IP Creation: Online Reading Business

A Thriving Content Incubator with Record-breaking Growth in Popular Titles

In 1H23, we added:



~200,000 writers



~350,000 works of literature



~19.5 bn Chinese characters

High-performing titles set new records:

Number of books that newly reached 10,000+ average subscribers per chapter

+120%

Number of books with 10,000+ monthly votes from users

+50%

Innovative features enhanced user engagement:



Official fan communities for popular IP content to enhance reader participation and stickiness



MPU increased by **8.6%** YoY and **12.8%** sequentially to 8.8 mn

Overseas expansion continued:



~3,200 works translated from Chinese and ~560,000 original works created locally

Continuous Pipeline of Blockbuster Releases

Drama Series



The Road to Ordinary (平凡之路)

- **1st** in the Tencent Video drama hit list for **16 consecutive days**
- **1st** in the China Audio Video Big Data prime-time TV drama ratings for **15 consecutive days**
- **1st** in the popularity lists of various third-party professional TV and movie data platforms, such as Maoyan, Dengta, and DataWin



In Spite of the Strong Wind (纵有疾风起)

- **Top 2** for local TV prime-time drama series ratings nationwide during its broadcast run on Beijing TV and Jiangsu TV

Anime & Comics



Animation Series

- Released new seasons for classic IP franchises Stellar Transformations (星辰变) and Almighty Mage (全职法师)
- **Top 3** most popular animation series on Tencent Video through continuous content updates: 52-week season 1 & 2 for Battle Through the Heavens (斗破苍穹)

Comics

- Focused on enhancing high-quality content offerings
- Popular titles: Dafeng Guardian (大奉打更人), Since the Red Moon Appeared (从红月开始), and Astral Pet Store (超神宠兽店)

High-quality Online Games and Physical Merchandise

Online Games

- Game licensing: A Record of a Mortal's Journey to Immortality (凡人修仙传) and Swallowed Star (吞噬星空) were successfully launched in 1H 2023
- In-house game operation: launched expansion packs for New Soul Land (新斗罗大陆), with new gameplay modes and upgraded artwork, successfully prolonging the game's lifecycle



Merchandise

- Launched a number of key products, such as self-developed blind boxes for Lord of the Mysteries (诡秘之主) and Battle Through the Heavens (斗破苍穹)



AI: a Once-in-a-Generation Opportunity

We See Generative AI as a New Engine to Improve Efficiency and Quality in the IP Ecosystem

1

AI can super-charge content production, create multi-format user experiences and generally help us achieve integrated IP operations. AI can facilitate the generation of content such as text, audio, comics, and animation, which can complement and be integrated with China Literature's existing user operation system, helping China Literature reach a broader audience in a wider variety of formats, with enhanced user stickiness.

2

AI can play an integral role in IP incubation. Its ability to quickly convert text into visuals will allow us to front-load IP development work, increasing our success rate at creating blockbuster IP.

3

AI can be a highly efficient means of translating online literature into multiple languages and therefore achieving IP globalization and creating significant additional value.

4

AI opens up a vast new imaginative space, and can be fully integrated into the IP ecosystem as a foundational capability that empowers upstream and downstream partners alike.

Smart Pen: the 1st LLM specifically for the online literature industry

- Released "Smart Pen" AI Large Language Model (LLM), the first LLM designed specifically for the online literature industry in June 2023.
- Launched the "Smart Pen" Edition of Author Assistant Application, which is based on our proprietary LLM and will support writers in various aspects of content creation.

A New Organizational Structure

Upgrading China Literature's Organizational Structure to Better Seize the AI Opportunity

Four Business Units to leverage generative AI to re-shape our products and business processes

Content Ecosystem Platform

Drive deep integration between original content creation and various platforms

Film and TV Drama

Further integrate New Classics Media and China Literature, develop serialized IP dramas and films across various categories, and create a steady stream of blockbusters

Intelligence and Platform R&D

Drive breakthroughs in AI Large Language Models and transform them into cutting-edge generative AI applications

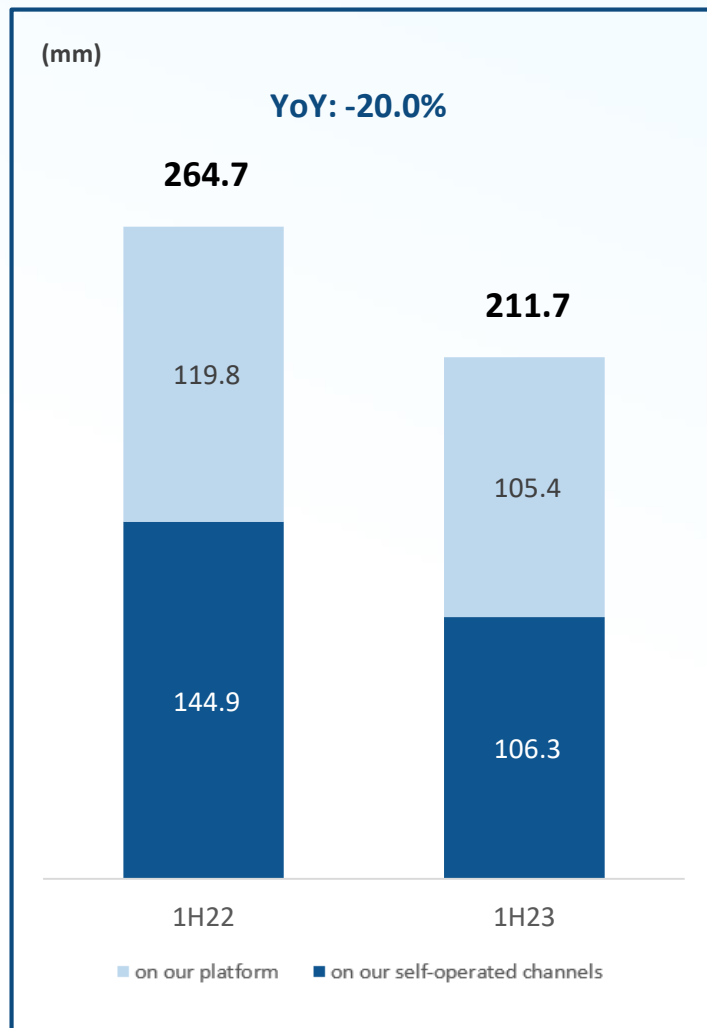
Corporate Development

Oversee decision-making processes related to our core business and coordinate integrated IP development and operations

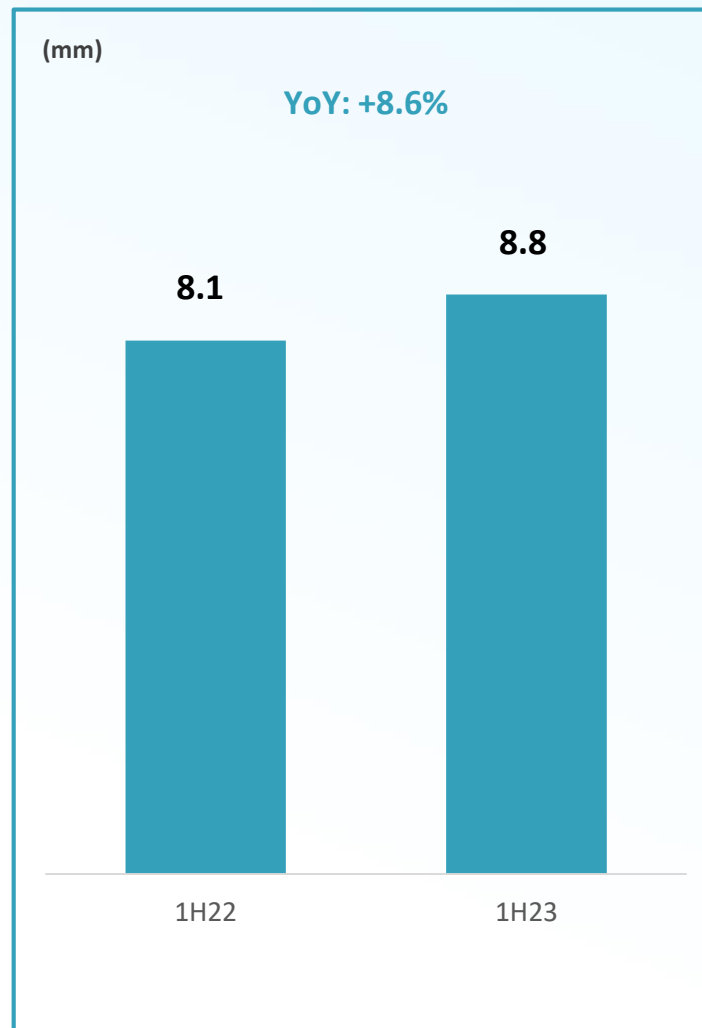
- This new organizational structure will empower China Literature to re-engineer its business processes around generative AI.
- By improving IP mining and production efficiency, shortening IP development cycles, and improving our success rate at creating blockbuster IP, we will ultimately help the entire industry chain benefit from this historic wave of innovation.

Financials: Key Operating Metrics

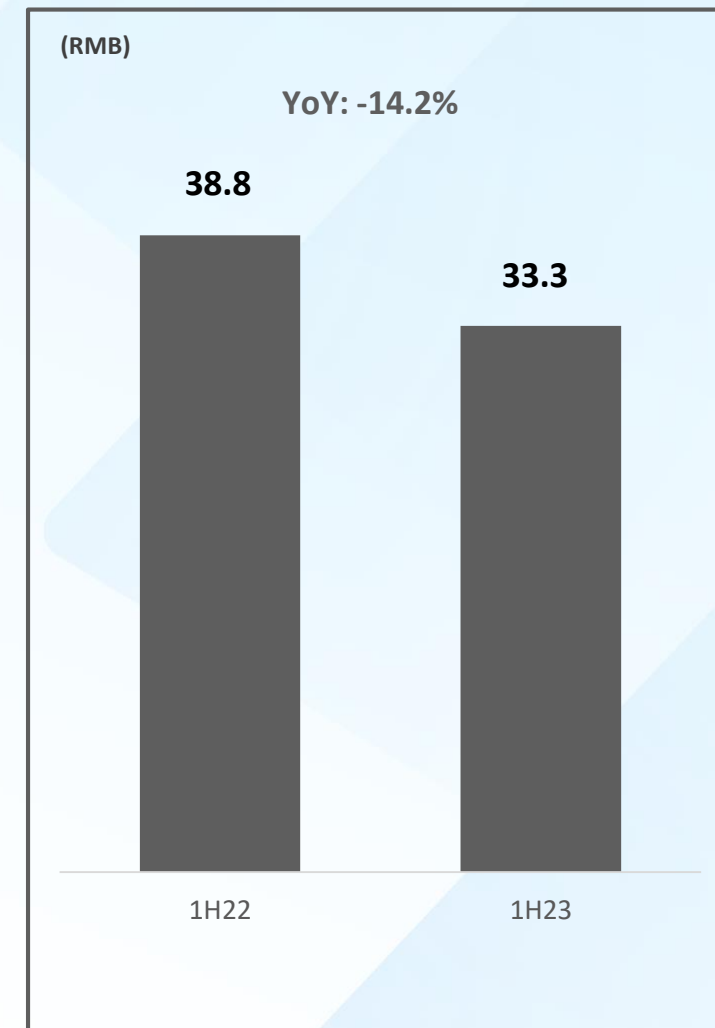
MAUs (1)



MPUs for Paid Reading (2)



Monthly ARPU for Paid Reading (3)



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.

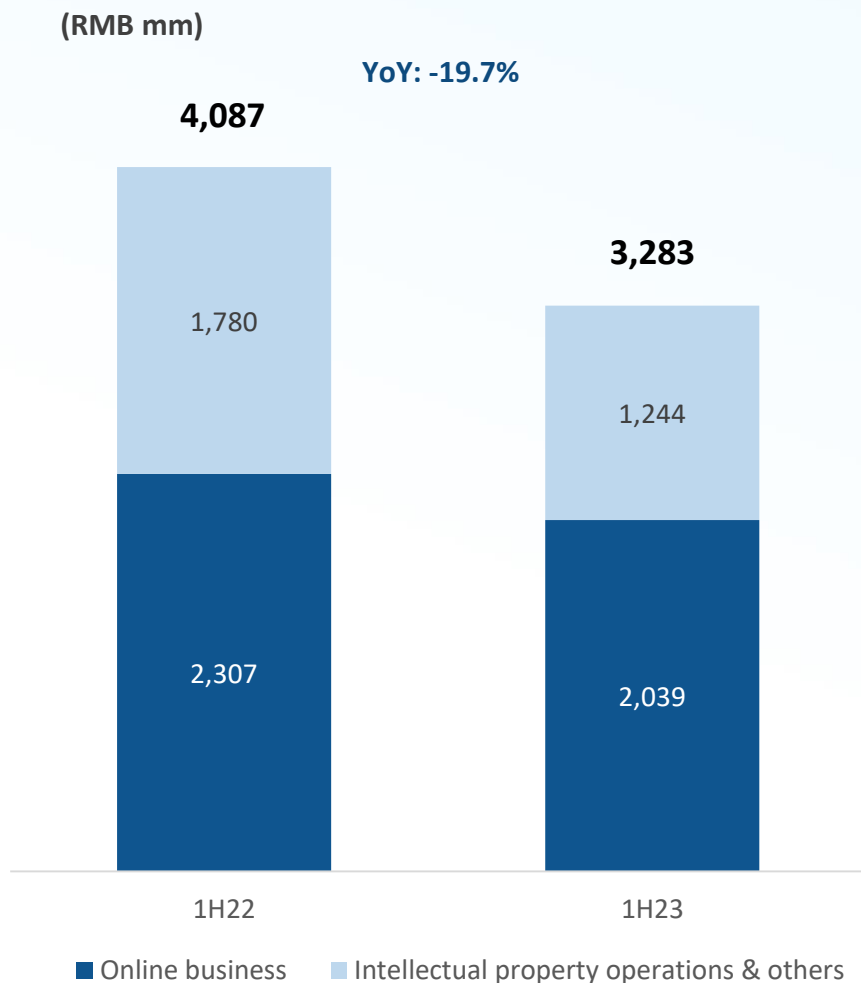
(3) Average monthly ARPU is calculated as online reading revenue on our platform and self-operated channels divided by average MPUs during the period, then divided by the number of months during the period.

Financials: Income Statement

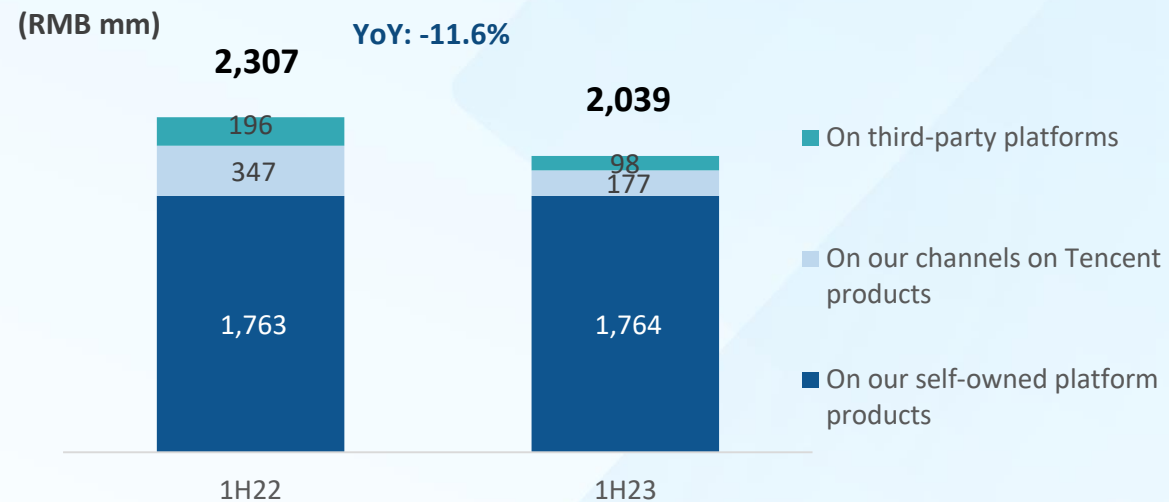
RMB'000	1H22	1H23	YoY
Revenues	4,087,214	3,283,026	(19.7%)
Cost of revenues	(1,940,888)	(1,678,264)	(13.5%)
Gross profit	2,146,326	1,604,762	(25.2%)
Interest income	68,855	80,137	16.4%
Other gains/(losses), net	(235,409)	5,814	(102.5%)
Selling and marketing expenses	(1,110,501)	(822,147)	(26.0%)
General and administrative expenses	(557,530)	(534,509)	(4.1%)
Net provision for impairment losses on financial assets	(60,532)	(23,109)	(61.8%)
Operating profit	251,209	310,948	23.8%
Finance costs, net	(31,604)	(2,820)	(91.1%)
Share of net profit of associates and joint ventures	120,831	117,461	(2.8%)
Income tax expense	(108,160)	(49,610)	(54.1%)
Net profit to shareholders	228,545	376,680	64.8%
Non-IFRS net profit to shareholders	665,995	603,119	(9.4%)

Financials: Revenue Structure

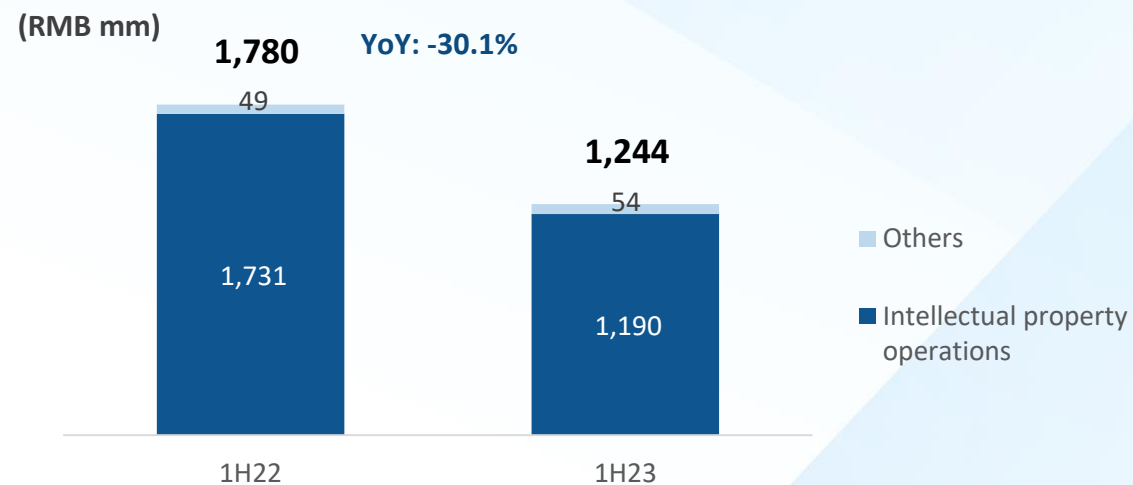
Revenues by Segment ⁽¹⁾



Online Business Revenues Breakdown ⁽¹⁾



Intellectual Property Operations & Others Revenues Breakdown ⁽¹⁾

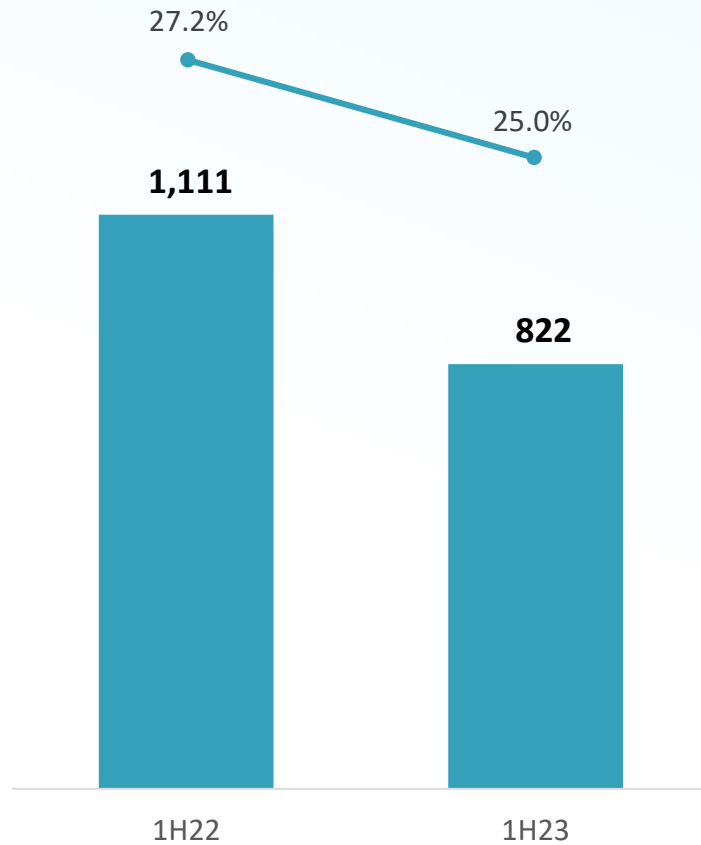


Note:

(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.

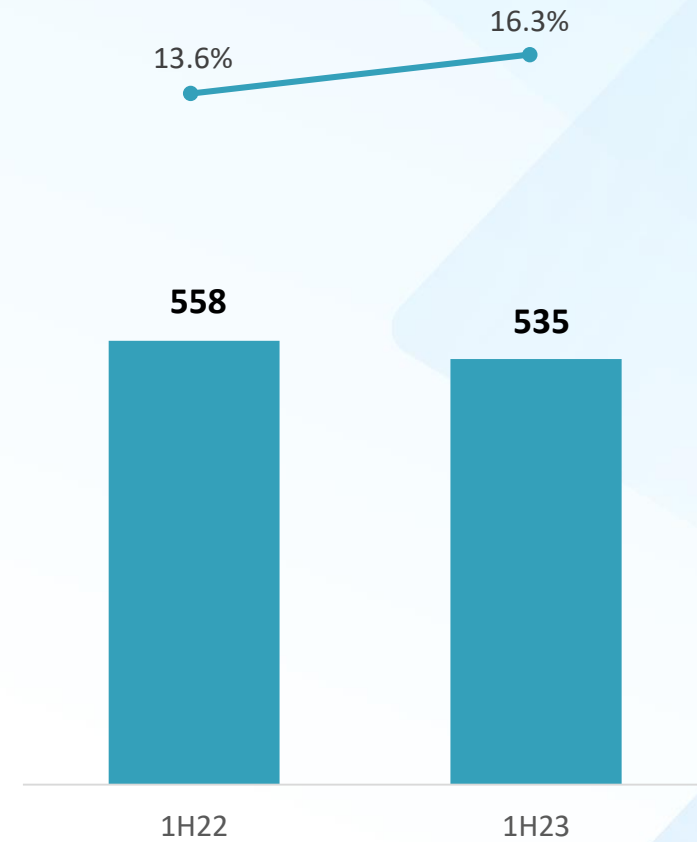
Selling & Marketing Expenses

as % of total revenue, total amount in RMB mn



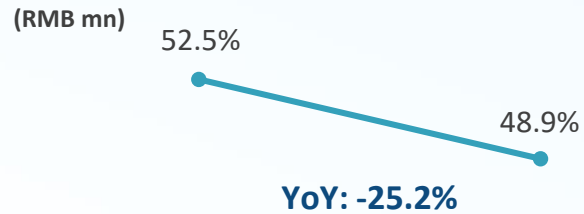
General & Administrative Expenses

as % of total revenue, total amount in RMB mn



Financials: Key Profitability Metrics

Gross Profit and Gross Margin



2,146

1,605

1H22

1H23

Non-IFRS Operating Profit and Operating Margin ⁽¹⁾



694

546

1H22

1H23

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



666

603

1H22

1H23

Note:

(1) Figures under Non-IFRS measures.

Financials: Non-IFRS Profitability

(RMB'000)	1H22	1H23	YoY
EBITDA	600,560	372,213	(38.0%)
<i>Margin %</i>	<i>14.7%</i>	<i>11.3%</i>	
Adjusted EBITDA ⁽¹⁾	745,058	471,354	(36.7%)
<i>Margin %</i>	<i>18.2%</i>	<i>14.4%</i>	
Operating profit	251,209	310,948	23.8%
<i>Margin %</i>	<i>6.1%</i>	<i>9.5%</i>	
Non-IFRS operating profit ⁽²⁾	693,824	545,848	(21.3%)
<i>Margin %</i>	<i>17.0%</i>	<i>16.6%</i>	
Net profit to shareholders	228,545	376,680	64.8%
<i>Margin %</i>	<i>5.6%</i>	<i>11.5%</i>	
Non-IFRS net profit to shareholders ⁽³⁾	665,995	603,119	(9.4%)
<i>Margin %</i>	<i>16.3%</i>	<i>18.4%</i>	

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 from investments and acquisitions, 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 from investments and acquisitions, amortization of intangible assets resulting from acquisitions, and related tax effect.

Thank You

