

阅文集团

CHINA LITERATURE

China Literature Limited

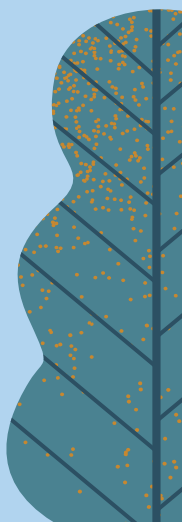
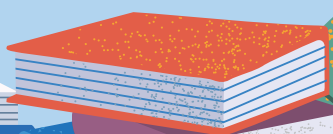
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772



2020

INTERIM REPORT



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Cheng Wu (*Chief Executive Officer*)
(appointed on April 27, 2020)

Mr. Hou Xiaonan (*President*)
(appointed on April 27, 2020)

Mr. Liang Xiaodong (*Co-Chief Executive Officer*)
(resigned on April 27, 2020)

Non-executive Directors

Mr. James Gordon Mitchell (*Chairman*)

Mr. Wu Wenhui (*Vice-Chairman*)
(re-designated on April 27, 2020)

Mr. Cao Huayi

Mr. Cheng Yun Ming Matthew

Ms. Chen Fei (*resigned on April 27, 2020*)

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 (*appointed on April 27, 2020*)

Mr. Wu Wenhui (*resigned on April 27, 2020*)

Nomination Committee

Mr. James Gordon Mitchell (*Chairman*)

Ms. Yu Chor Woon Carol

Mr. Liu Junmin

Strategy and Investment Committee

Mr. Cheng Wu (*Chairman*) (*appointed on April 27, 2020*)

Mr. James Gordon Mitchell

Mr. Hou Xiaonan (*appointed on April 27, 2020*)

Mr. Wu Wenhui (*re-designated on April 27, 2020*)

Mr. Liang Xiaodong (*resigned on April 27, 2020*)

Ms. Chen Fei (*resigned on April 27, 2020*)

Authorized Representatives

Mr. Cheng Wu (*appointed on April 27, 2020*)

Ms. Lai Siu Kuen

Mr. Liang Xiaodong (*resigned on April 27, 2020*)

Joint Company Secretaries

Mr. Zhao Jincheng

Ms. Lai Siu Kuen

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

CORPORATE INFORMATION

Registered Office

The offices of Maples Corporate Services Limited
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Grand Cayman KY1-1104
Cayman Islands

Head Office and Principal Place of Business in China

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PRC

Principal Place of Business in Hong Kong

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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
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PRC

Company's Website

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

Stock Code

772

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)	Year- over-year (%)
Revenues	3,260,206	2,970,951	9.7
Gross profit	1,731,312	1,621,150	6.8
Operating (loss)/profit	(3,555,563)	527,722	(773.8)
(Loss)/profit before income tax	(3,511,816)	516,740	(779.6)
(Loss)/profit for the period	(3,310,525)	393,220	(941.9)
(Loss)/profit attributable to equity holders of the Company	(3,295,874)	392,722	(939.2)
Non-IFRS profit attributable to equity holders of the Company	21,679	389,999	(94.4)

CHALLENGES

In China Literature's 2019 Chairman's Statement, I discussed several challenges facing our Company, ranging from the competitive environment for our free-to-read literature App, declining traffic from our traditional distribution channels, and increased regulatory scrutiny over the content industry, and especially over long form video production. I did not predict the additional difficulties brought by COVID-19, and the conjunction of these challenges resulted in us writing off part of our investment in New Classics Media, and thus reporting an IFRS loss for the first half of 2020 – a disappointing outcome for us and for our shareholders.

While many of our challenges are external in nature, there are several that are internal, and thus more open to resolution. In particular:

- Misunderstandings with our writers due to earlier versions of our contracts with those writers.
- The slower-than-industry growth of Feidu, our own free-to-read App.
- Limited development of synergies between China Literature and New Classics Media.
- A number of our business partnerships being transaction-based rather than relationship-based, and thus not serving our long term interests.

On the positive side, we continued to develop the paid reading industry, New Classics Media released some highly popular drama series such as *Joy of Life* (慶餘年), and the Company overall reinforced its differentiated position as the leading Chinese language repository of intellectual property, in particular novels.

CHANGES

During the first half of 2020, we were pleased to bring on board a new chief executive officer, Wu CHENG (Edward), and a new president, Xiao Nan HOU (Monkey). We believe Edward and Monkey are well-positioned to drive change given both are Internet industry veterans who have been working with China Literature for many years and know its businesses well. We are already seeing that their onboarding is enhancing connectivity between China Literature and Tencent, as well as providing fresh perspectives and new energy to the team.

PERSPECTIVE

I recently read an exhaustive history of Marvel Comics, Sean Howe's "Marvel Comics: The Untold Story", which put some of our growing pains into perspective for me. Aspects of Marvel's story that particularly resonated included:

- The time taken for Marvel to blossom – from its founding (in 1939), to its emergence as the top-selling comic book publisher (overtaking DC Comics in 1972), to its evolution into the most successful upstream source for Hollywood movies, as well as an increasingly important upstream source for video-on-demand TV series and video games (following Disney's acquisition in 2009).
- The long lineage of concepts which still feel fresh and modern – for example, Marvel published the Avengers Infinity War comic book series in 1992, 26 years before the blockbuster movie of the same name.

CHAIRMAN'S STATEMENT

- The constraints under which Marvel operated, which in many cases contributed to its future success – for example, the Comics Code of the Comics Magazine Association of America in 1954 stipulated that “in every instance good shall triumph over evil and the criminal be punished for his misdeeds,” and forbade the depiction of zombies, vampires, werewolves in comic books, which spurred publishers to instead focus on super hero stories.
- The extent to which so many individuals invested so much creativity and energy into the characters, stories, and company along the way.

APPRECIATION

Consequently, and on behalf of the board of directors, I thank our team, authors, and partners for staying together during a relatively difficult first half of 2020. I appreciate the resilience of our investors, and I express our gratitude to our users – writers, readers, viewers, listeners, and many more – who bring our literature to life in their imaginations. I particularly want to extend our thanks to Wenhui WU, Xiaodong LIANG, Xuesong SHANG, and the other founding leaders of China Literature who have stepped back from executive positions but remain our partners on the multi-decade journey of sponsoring, accumulating, and popularizing China’s leading repository of novels and intellectual property.

Sincerely,
James Gordon Mitchell
Chairman of the Board and non-executive Director
Hong Kong, August 11, 2020

BUSINESS REVIEW AND OUTLOOK

OVERVIEW

The year 2020 started with a global COVID-19 pandemic unexpectedly. The pandemic has drastically changed the world over the past few months and has lasting implications for the macro-economy and film and TV industry in particular. Offline consumer demand shrank dramatically, streets were almost empty and theater chains were locked and closed. On the supply side, numerous projects, including TV and film productions, were delayed. The release dates are still uncertain for many projects.

The pandemic together with the fluid and changing macro-environment have had a negative impact on our business performance. The experience has made us realize that China Literature has structural issues that have piled up in recent years, which have gradually degraded the Company's market share and neutralized its competitive edge. These are the fundamental reasons for our disappointing results.

BUSINESS REVIEW

Our core online reading business has been facing challenges. The robustness of the China Literature platform depends on our talented writers and their creative drive. In the past, we failed to take full care of our writer's feelings and support our writers adequately through our incentive program, and some of our writers expressed concern about previous versions of the writer's contract. Writers are the cornerstone of the China Literature platform, and we need to do more to enhance their trust.

Meanwhile, the free-to-read business failed to meet our expectations. Last year, we launched our free reading App Feidu as a supplement to our paid reading products. The free-to-read reading product has strong influence in certain markets and over certain user groups, but Feidu's overall performance failed to match the leading position the Company enjoys in China's online literature sector.

For IP business, consolidation with New Classics Media (NCM) failed to produce full synergy. NCM is one of the best TV and film production houses in China. After the NCM acquisition, we tried to systematically convert our leading IP into TV series and films. The results were encouraging, as witnessed by the popularity of *Joy of Life (慶餘年)* but far from an overall success, and our integration with NCM fell behind schedule, largely because we lacked a team with sufficient knowledge of both online literature and drama production to drive progress.

BUSINESS REVIEW AND OUTLOOK

In addition, we lacked a structure, a top-down design to create an IP-centric content and operational strategy, which could maximize the life-time value of IP by promoting cross-media production. Our past efforts had resulted in some success stories but the real issue is how to scale. We need a detailed, systematic set of guidelines to turn our valuable IP into various entertainment content such as comics, animations, TV series, film and games. We need to carefully manage the value of each IP over its life cycle, and apply a common methodology to the entire IP portfolio in order to maximize portfolio returns.

Furthermore, we have many business partners that have not yet successfully been converted into participants in our ecosystem. With business partners, we negotiate deals by focusing on give and take, a typical zero-sum game mindset. With ecosystem participants, the central question is how to create a long-term, win-win relationship.

INITIAL ACTION AND RESULTS

We will take actions to deal with these challenges. The Company has already responded quickly to some of the most urgent concerns.

For example, regarding the complaints the writers have about our previous contracts, we initiated a candid dialogue with writer candidates to hear their concerns and promised to tackle deep-rooted issues in the industry. Within one month, we launched several new contract templates for writers to choose from, and stepped up our efforts to fight piracy to better protect writers' rights. These actions helped us regain the trust of the writer community, strengthened our core business, and attracted favorable attention from the market.

OUTLOOK

Looking ahead, we will use the same critical thinking and responsive attitude as key tools to address issues in the Company's other business lines. We will take major steps to improve our content, platform and ecosystem. First, we will strengthen our core business through enhancing IP incubation capability, strengthening fundamentals, and speeding up cross-sector development to accelerate our IP development. Second, we will improve the social and community features of the platform and establish a stronger connection between China Literature's products and the Tencent portfolio. Finally, we will introduce enhancements to our IP-centric ecosystem, leveraging our high-quality IP to build business partnerships and networks in content segments including comics, animation, TV series, film, and games. We will capture new opportunities arising from our innovative technology, segment business models and partnership networks.

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Revenues	3,260,206	2,970,951
Cost of revenues	(1,528,894)	(1,349,801)
Gross profit	1,731,312	1,621,150
Interest income	62,048	85,589
Other (losses)/gains, net	(3,529,736)	269,572
Selling and marketing expenses	(1,270,264)	(976,720)
General and administrative expenses	(350,665)	(473,400)
Net (provision for)/reversal of impairment losses on financial assets	(198,258)	1,531
Operating (loss)/profit	(3,555,563)	527,722
Finance costs	(38,080)	(93,464)
Share of net profit of associates and joint ventures	81,827	82,482
(Loss)/profit before income tax	(3,511,816)	516,740
Income tax benefit/(expense)	201,291	(123,520)
(Loss)/profit for the period	(3,310,525)	393,220
Attributable to:		
Equity holders of the Company	(3,295,874)	392,722
Non-controlling interests	(14,651)	498
	(3,310,525)	393,220
Non-IFRS profit for the period	7,028	390,517
Attributable to:		
Equity holders of the Company	21,679	389,999
Non-controlling interests	(14,651)	518
	7,028	390,517

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues. Revenues increased by 9.7% to RMB3,260.2 million for the six months ended June 30, 2020 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020		2019	
	RMB' 000	%	RMB' 000	%
	(Unaudited)		(Unaudited)	
Online business⁽¹⁾				
On our self-owned platform products	1,989,748	61.0	985,341	33.2
On our self-operated channels on Tencent products	324,266	9.9	431,371	14.5
On third-party platforms	181,391	5.6	245,769	8.3
Subtotal	2,495,405	76.5	1,662,481	56.0
Intellectual property operations and others⁽²⁾				
Intellectual property operations	719,151	22.1	1,215,030	40.9
Others	45,650	1.4	93,440	3.1
Subtotal	764,801	23.5	1,308,470	44.0
Total revenues	3,260,206	100.0	2,970,951	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 IP rights for adaptation, operation of self-operated online games and sales of physical books.

– Revenues from online business increased by 50.1% to RMB2,495.4 million for the six months ended June 30, 2020 on a year-over-year basis, accounting for 76.5% of total revenues.

Revenues from online business on our self-owned platform products increased by 101.9% to RMB1,989.7 million for the six months ended June 30, 2020, primarily driven by the expansion of distribution channels and users' growing willingness to pay for our reading content during the first half of 2020.

Revenues from online business on our self-operated channels on Tencent products decreased by 24.8% to RMB324.3 million for the six months ended June 30, 2020, primarily due to the continued decline in paid reading revenues from our self-operated channels on certain Tencent products.

Revenues from online business on third-party platforms decreased by 26.2% to RMB181.4 million for the six months ended June 30, 2020, primarily due to the decrease in revenues from certain third-party platform cooperators.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarizes our key operating data for the six months ended June 30, 2020 and 2019:

	Six months ended June 30,	
	2020	2019
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	233.4 million	217.1 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	10.6 million	9.7 million
Paying Ratio ⁽¹⁾	4.5%	4.5%
Monthly average revenue per paying user ("ARPU") ⁽²⁾	RMB34.1	RMB22.5

Notes:

- (1) Paying ratio is calculated as average MPUs/average MAUs for a certain period.
- (2) 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 increased by 7.5% year-over-year from 217.1 million to 233.4 million for the six months ended June 30, 2020, among which (i) MAUs on our self-owned platform products increased 16.1% year-over-year from 115.6 million to 134.2 million, primarily due to the expansion of distribution channels for our reading content; and (ii) MAUs on our self-operated channels on Tencent products decreased 2.3% year-over-year from 101.5 million to 99.2 million, primarily due to the decline of users for paid reading content for certain Tencent products, partially offset by the increase in users brought by free-to-read content.
- Average MPUs on our self-owned platform products and self-operated channels increased by 9.3% year-over-year from 9.7 million to 10.6 million for the six months ended June 30, 2020. The increase was driven by the growing number of paying users on our self-owned platform products, partially offset by the decrease in paying users from our self-operated channels on certain Tencent products as more users were allocated to read the free-to-read content on these Tencent products for the six months ended June 30, 2020.
- As a result of the foregoing, the paying ratio remained stable at 4.5% for the six months ended June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

- Monthly ARPU increased by 51.6% year-over-year from RMB22.5 to RMB34.1 for the six months ended June 30, 2020, mainly because we enhanced the depth of our content operations, optimized our recommendation system and expanded content distribution channels during the first half of 2020.

- Revenues from intellectual property operations and others decreased by 41.5% year-over-year to RMB764.8 million for the six months ended June 30, 2020.

Revenues from intellectual property operations decreased by 40.8% year-over-year to RMB719.2 million for the six months ended June 30, 2020. The decrease was primarily caused by the decrease in revenues from NCM during the first half of 2020.

Revenues from others decreased by 51.1% year-over-year to RMB45.7 million for the six months ended June 30, 2020, primarily due to the decrease in revenues from the sales of physical books as impacted by the COVID-19 pandemic. In addition, we continued to adjust our physical book business and distribution channels in tandem with our business development strategy.

Cost of revenues. Cost of revenues increased by 13.3% year-over-year to RMB1,528.9 million for the six months ended June 30, 2020, mainly due to greater platform distribution costs which increased from RMB197.1 million to RMB619.3 million for the six months ended June 30, 2020. This was mainly resulted from the expansion of online reading channels and our self-operated online game, which also led to an increase in revenues. The increase in cost of revenues was partially offset by a decline in the production costs of TV, web and animated series and films. These costs decreased from RMB359.7 million to RMB68.1 million for the six months ended June 30, 2020, but were also accompanied by a decrease in revenues.

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,			
	2020		2019	
	RMB' 000 (Unaudited)	% of revenues	RMB' 000 (Unaudited)	% of revenues
Platform distribution costs	619,313	19.0	197,064	6.6
Content costs	583,608	17.9	556,089	18.7
Amortization of intangible assets	82,865	2.5	65,063	2.2
Production costs of TV, web and animated series and films	68,113	2.1	359,691	12.1
Cost of inventories	59,887	1.8	83,725	2.8
Others	115,108	3.6	88,169	3.0
Total cost of revenues	1,528,894	46.9	1,349,801	45.4

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 6.8% year-over-year to RMB1,731.3 million for the six months ended June 30, 2020. Gross margin was 53.1% for the six months ended June 30, 2020, as compared with 54.6% for the six months ended June 30, 2019.

Interest income. Interest income decreased by 27.5% to RMB62.0 million for the six months ended June 30, 2020, reflecting lower interest income from bank deposits.

Other (losses)/gains, net. We recorded net other losses of RMB3,529.7 million for the six months ended June 30, 2020, compared to net other gains of RMB269.6 million for the six months ended June 30, 2019. The other losses for the six months ended June 30, 2020 consisted mainly of i) the impairment provision of goodwill and trademark rights related to the acquisition of NCM of RMB4,015.9 million and RMB389.8 million, respectively, ii) a fair value gain on consideration liabilities of RMB1,240.3 million due to an expected saving of earn-out consideration under the earn-out mechanism set upon the acquisition of NCM, and iii) the impairment provision of the Company's long-term investments related to certain investee companies of RMB252.0 million.

Selling and marketing expenses. Selling and marketing expenses increased by 30.1% year-over-year to RMB1,270.3 million for the six months ended June 30, 2020, primarily driven by greater marketing expenses to promote our online reading content during the period. As a percentage of revenues, our selling and marketing expenses increased to 39.0% for the six months ended June 30, 2020 from 32.9% for the six months ended June 30, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

General and administrative expenses. General and administrative expenses decreased by 25.9% year-over-year to RMB350.7 million for the six months ended June 30, 2020, primarily attributable to the reversal of compensation costs of RMB116.7 million related to the service expense of certain employees and former owners of NCM as the Company expects that the performance of NCM in 2020 will be below expectation. As a percentage of revenues, general and administrative expenses decreased to 10.8% for the six months ended June 30, 2020 from 15.9% for the six months ended June 30, 2019.

Net (provision for)/reversal of impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the six months ended June 30, 2020, the provision for doubtful receivables was RMB198.3 million, mainly related to TV and film projects.

Operating (loss)/profit. As a result of the foregoing, we had an operating loss of RMB3,555.6 million for the six months ended June 30, 2020, as compared with an operating profit of RMB527.7 million in the prior corresponding period.

Finance costs. Finance costs decreased by 59.3% year-over-year to RMB38.1 million for the six months ended June 30, 2020. The decrease was mainly due to lower interest expenses incurred in the first half of 2020.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures remained stable at RMB81.8 million for the six months ended June 30, 2020, reflecting the profits generated by our investee companies in the first half of 2020.

Income tax benefit/(expense). Income tax benefit was RMB201.3 million for the six months ended June 30, 2020, as compared to an income tax expense of RMB123.5 million for the same period of last year. The recognition of deferred income tax assets and the reversal of deferred income tax liabilities from the accrual of asset impairment losses exceeded the income tax expenses that incurred during the first half of 2020, resulting in a net gain from income taxes.

(Loss)/profit attributable to equity holders of the Company. We had a loss attributable to equity holders of the Company of RMB3,295.9 million for the six months ended June 30, 2020, as compared with a profit attributable to equity holders of the Company of RMB392.7 million for the six months ended June 30, 2019.

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, 2020 and 2019:

	Six months ended June 30, 2020		
	Online business RMB' 000 (Unaudited)	Intellectual property operations and others RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Segment revenues	2,495,405	764,801	3,260,206
Cost of revenues	1,146,247	382,647	1,528,894
Gross profit	1,349,158	382,154	1,731,312
Gross margin	54.1%	50.0%	53.1%

	Six months ended June 30, 2019		
	Online business RMB' 000 (Unaudited)	Intellectual property operations and others RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)
Segment revenues	1,662,481	1,308,470	2,970,951
Cost of revenues	703,329	646,472	1,349,801
Gross profit	959,152	661,998	1,621,150
Gross margin	57.7%	50.6%	54.6%

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
EBITDA ⁽¹⁾	59,585	298,173
Adjusted EBITDA ⁽²⁾	17,117	459,214
Adjusted EBITDA margin ⁽³⁾	0.5%	15.5%
Interest expense	33,873	96,293
Net cash ⁽⁴⁾	4,530,411	4,892,250
Capital expenditures ⁽⁵⁾	125,083	94,549

Notes:

- (1) EBITDA consists of operating profit for the period less interest income and other gains, 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, term deposits and restricted bank 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 (loss)/profit to our EBITDA and adjusted EBITDA for the periods presented:

	Six months ended June 30,	
	2020	2019
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Operating (loss)/profit	(3,555,563)	527,722
Adjustments:		
Interest income	(62,048)	(85,589)
Other losses/(gains), net	3,529,736	(269,572)
Depreciation of property, plant and equipment	11,466	10,968
Depreciation of right-of-use assets	32,641	31,343
Amortization of intangible assets	103,353	83,301
EBITDA	59,585	298,173
Adjustments:		
Share-based compensation	52,152	71,639
Expenditure related to acquisition	(94,620)	89,402
Adjusted EBITDA	17,117	459,214

Non-IFRS Financial Measure:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating (loss)/profit, 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. In addition, 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, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2020					
	Adjustments					
	As reported	Share-based compensation	Net loss from	Amortization	Tax effect	Non-IFRS
			investments and acquisition ⁽¹⁾	of intangible assets ⁽²⁾		
(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%

	Unaudited six months ended June 30, 2019					
	Adjustments					
	As reported	Share-based compensation	Net (gain) from	Amortization	Tax effect	Non-IFRS
			investments and acquisition ⁽¹⁾	of intangible assets ⁽²⁾		
(RMB' 000, unless specified)						
Operating profit	527,722	71,639	(145,979)	63,738	–	517,120
Profit for the period	393,220	71,639	(125,125)	63,738	(12,955)	390,517
Profit attributable to equity holders of the Company	392,722	71,639	(125,125)	63,718	(12,955)	389,999
EPS (RMB per share)						
– basic	0.39					0.39
– diluted	0.39					0.39
Operating margin	17.8%					17.4%
Net margin	13.2%					13.1%

Notes:

- (1) Including 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 related to the service expense of certain employees and former owners of NCM.
- (2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets decreased from RMB26,250.0 million as of December 31, 2019 to RMB21,460.4 million as of June 30, 2020, while our total liabilities decreased from RMB6,839.2 million as of December 31, 2019 to RMB5,027.8 million as of June 30, 2020. Liabilities-to-assets ratio decreased from 26.1% as of December 31, 2019 to 23.4% as of June 30, 2020.

As of June 30, 2020, the current ratio (the ratio of total current assets to total current liabilities) was 291.7%, compared to 206.1% as of December 31, 2019.

As of June 30, 2020, our Group has pledged receivables of RMB224.7 million as security to a certain bank borrowing, compared to RMB324.2 million as of December 31, 2019.

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 bank loans. As of June 30, 2020, our Group had net cash of RMB4,530.4 million, compared to RMB5,139.3 million as of December 31, 2019. The decrease in net cash in the first half of 2020 was mainly due to the earn-out cash consideration paid for the acquisition of NCM based on its 2019 financial performance, partially offset by the cash generated from our operating activities. Our bank balances and term deposits are primarily in USD, RMB 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, 2020:

- Our gearing ratio was 11.3%, compared to 6.7% as of December 31, 2019.
- Our total borrowings were RMB1,864.2 million, which were primarily denominated in RMB.
- Our unutilized banking facility was RMB1,407.8 million.

As of June 30, 2020 and December 31, 2019, our Group had no significant contingent liabilities.

As of June 30, 2020 and December 31, 2019, 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 contents 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, 2020 totalled RMB125.1 million, compared to RMB305.6 million for the six months ended June 30, 2019, representing a year-over-year decrease of RMB180.5 million which was primarily due to less expenditure for investments in associates and joint ventures in the first half of 2020. 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 flows generated from our operations and the IPO Proceeds.

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 with respect to RMB, HKD and USD. Therefore, 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 our 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, 2020 and 2019.

Employee

As of June 30, 2020, we had approximately 2,000 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 accidental 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 RMB129.9 million in revenues and RMB97.1 million in net loss for the six months ended June 30, 2020.

Currently, the film and television industry in mainland China is undergoing profound adjustment as it responds to the fluid and changing macro-environment, and is experiencing a decline in the number of project filings, productions and releases, as well as lower-than-expected profits from certain individual projects. In addition, the outbreak of the COVID-19 epidemic has continued to affect the macro-economy. The film and television industry in mainland China has suffered substantially, due to production delays and uncertain release dates. Under these pressures, NCM's production cycle for film and television projects has elongated and becomes less predictable.

The Company carried out an assessment of goodwill and trademark rights attributable to NCM as of June 30, 2020 based on impairment indicators. In the Board's view, the recoverable amount of goodwill and trademark rights related to the acquisition of NCM was lower than their carrying amount, and the impairment provision was recorded of RMB4,015.9 million and RMB389.8 million in goodwill and trademark rights, respectively. At the same time, the Company recognized a fair value gain on consideration liabilities of RMB1,240.3 million and reversed compensation costs of RMB116.7 million, as the Company expects that the performance of NCM in 2020 will be below expectation and will trigger a reduction in the earn-out consideration to the management team of NCM as sellers under the terms of the acquisition agreement.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance and recognises that good corporate 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, 2020, 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, 2020.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2020 (2019: 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, 2020. 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.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2020, 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 2019 annual report are set out below:

- Mr. Cheng Wu is an Executive Director and the Chief Executive Officer appointed on April 27, 2020. He is a member of the Remuneration Committee of the Company and the chairman of its Strategy and Investment Committee, and is also a director of certain subsidiaries of the Company.

Mr. Cheng has entered into a service contract with the Company as an Executive Director and the Chief Executive Officer for a term of three years commencing from August 1, 2020 and is subject to retirement by rotation and re-election in accordance with the Articles of Association as a replacement of the service contract entered into between the Company and Mr. Cheng Wu on April 27, 2020. Pursuant to the service contract, he is entitled to a director fee, emolument and bonus of RMB2,040,000 per year, which has been determined by the remuneration committee of the Board and the Board with reference to his experience, duties, responsibilities and the Company's remuneration policy and prevailing market condition.

- Mr. Hou Xiaonan is an Executive Director and the President appointed on April 27, 2020. He is a member of the strategy and investment committee of the Company, and is also a director of certain subsidiaries of the Company.

Mr. Hou has entered into a service contract with the Company as an Executive Director and the President for a term of three years commencing from August 1, 2020 and is subject to retirement by rotation and re-election in accordance with the Articles of Association as a replacement of the service contract entered into between the Company and Mr. Hou Xiaonan on April 27, 2020. Pursuant to the service contract, he is entitled to a director fee, emolument and bonus of RMB1,320,000 per year, which has been determined by the remuneration committee of the Board and the Board with reference to his experience, duties, responsibilities and the Company's remuneration policy and prevailing market condition.

OTHER INFORMATION

- Mr. Wu Wenhui is re-designated from an Executive Director, Co-Chief Executive Officer, the chairman of the Strategy and Investment Committee and a member of the Remuneration Committee to a Non-Executive Director, Vice-Chairman of the Board and a member of the Strategy and Investment Committee on April 27, 2020. Mr. Wu resigned positions in the following members of the Group:
 1. Cloudary Holdings Limited as a director;
 2. China Reading (Hong Kong) Limited as a director;
 3. New Classics Media Holdings Limited as a director;
 4. New Classics Media Hong Kong Limited as a director;
 5. China Reading Co., Ltd. as an executive director;
 6. Yueting Information Technology (Shanghai) Co., Ltd. as a director and manager;
 7. Shanghai Yuechao Network Technology Co., Ltd. as a director and manager;
 8. Shanghai Yuewen as a director and manager;
 9. Shanghai Hongwen as a director and manager;
 10. Shengyun Information Technology (Tianjin) Co., Ltd. as a director and manager;
 11. Yueting Information Technology (Tianjin) Co., Ltd. as an executive director;
 12. Shanghai Yuewen Film and Television Culture Communication Co., Ltd. as a manager;
 13. New Classics Media Corporation as a director; and
 14. New Classics (Tianjin) Media Technology Co., Ltd. as a director.
- Mr. Liang Xiaodong resigned as an Executive Director, Co-Chief Executive Officer and a member of the Strategy and Investment Committee on April 27, 2020. Mr. Liang also resigned positions in the members of the Group.
- Ms. Chen Fei resigned as non-Executive Director and a member of the Strategy and Investment Committee of the Company on April 27, 2020.
- Mr. Cheng Yun Ming Matthew has appointed as non-executive director of Tongcheng-Elong Holdings Limited (listed on the Stock Exchange under the stock code: 0780) on April 19, 2020.

OTHER INFORMATION

USE OF PROCEEDS

Our shares were listed on the Stock Exchange on November 8, 2017 by way of global offering and the net proceeds raised during our IPO were approximately RMB6,145 million (HKD7,235 million). The following table set forth the Group's intended timetable for use of proceeds as at June 30, 2020.

Intended use of net proceeds	Allocation of net proceeds	Amount of net proceeds utilized up to June 30, 2020	Balance of net proceeds unutilized as at June 30, 2020 (RMB in millions)	Intended timetable for use of the unutilized net proceeds
(i) Expanding the Group's online reading business and sales and marketing activities	1,843.4	1,424.5	418.9	By/before December 31, 2020
(ii) Expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles	1,843.4	1,843.4	–	Not applicable
(iii) Funding our potential investments, acquisitions and strategic alliances	1,843.4	1,843.4	–	Not applicable
(iv) Working capital and general corporate purposes	614.5	614.5	–	Not applicable

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

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

As of June 30, 2020, 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. Wu Wenhui ⁽²⁾	Interest in controlled Corporations	17,100,626	Long position	1.68
	Interest in controlled Corporations	9,485,220	Short position	0.93
Mr. James Gordon Mitchell	Beneficial owner	281,352	Long position	0.03
Mr. Cao Huayi ⁽³⁾	Interest in controlled corporations	40,978,579	Long position	4.03
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00
Mr. Cheng Wu	Beneficial owner	256	Long position	0.00

OTHER INFORMATION

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	8,868,564 ⁽⁴⁾	0.09
	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	438,333 ⁽⁵⁾	0.00
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	262,763 ⁽⁶⁾	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	112,111 ⁽⁷⁾	0.00
Mr. Wu Wenhui ⁽⁸⁾	Shanghai Hongwen	Interest of controlled corporation	3,462,000	34.62
Mr. Wu Wenhui ⁽⁸⁾	Shanghai Yuewen	Interest of controlled corporation	3,462,000	34.62

Notes:

(1) The calculation is based on the total number of 1,015,781,716 Shares in issue as of June 30, 2020.

(2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui is deemed to be interested in (i) the 17,100,626 Shares held by Grand Profits Worldwide Limited, and (ii) the derivatives held by Grand Profits Worldwide Limited, representing 9,485,220 underlying Shares.

(3) Mr. Cao Huayi is interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and is therefore deemed to be interested in the 34,230,324 Shares and 6,748,255 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the Share Purchase Agreement, respectively.

(4) These interests comprise (i) 2,071,398 shares of Tencent, (ii) 55,396 underlying shares of Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award scheme(s) of Tencent, and (iii) 6,741,770 underlying shares of Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option scheme(s) of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(5) These interests comprise (i) 280,376 shares of Tencent, (ii) 24,058 underlying shares of Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award scheme(s) of Tencent, and (iii) 133,899 underlying shares of Tencent in respect of the options granted to Mr. Cheng Yun Ming Matthew under share option scheme(s) of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(6) These interests comprise (i) 46 shares of Tencent, (ii) 579 underlying shares of Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award scheme(s) of Tencent, and (iii) 262,138 underlying shares of Tencent in respect of the options granted to Mr. Cheng Wu under share option scheme(s) of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(7) These interests comprise (i) 50,536 shares of Tencent, (ii) 35,446 underlying shares of Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award scheme(s) of Tencent, and (iii) 26,129 underlying shares of Tencent in respect of the options granted to Mr. Hou Xiaonan under share option scheme(s) of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(8) Each of Shanghai Hongwen and Shanghai Yuewen are owned as to 34.62% by Ningbo Meishan Yuebao, which in turn is held as to 83.88% by Mr. Wu Wenhui. Under the SFO, Shanghai Hongwen and Shanghai Yuewen are associated corporations of the Company.

OTHER INFORMATION

Save as disclosed above, as of June 30, 2020, 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 2020, 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, 2020, 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	601,126,564	Long position	59.18
THL A13 Limited ⁽²⁾	Beneficial owner	292,083,460	Long position	28.75
Qinghai Lake Investment Limited ⁽²⁾	Beneficial owner	230,705,634	Long position	22.71
Tencent Mobility Limited ⁽²⁾	Beneficial owner	78,337,470	Long position	7.71

Notes:

- (1) The calculation is based on the total number of 1,015,781,716 Shares in issue as of June 30, 2020.
- (2) THL A13, Qinghai Lake and Tencent Mobility Limited are wholly-owned subsidiaries of Tencent. Under the SFO, Tencent is deemed to be interested in the (i) 577,643,604 Shares directly held by THL A13, Qinghai Lake and Tencent Mobility Limited in aggregate; and (ii) 23,482,960 underlying Shares with respect to certain put options granted by THL A13 at an exercise price of HK\$40 per Share.

Save as disclosed above, as of June 30, 2020, 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.

OTHER INFORMATION

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 RSUs 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.

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.

OTHER INFORMATION

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 10 and November 5, 2019 have a vesting period of five years, one-fifth of which will each vest on April 10, July 10, November 5, 2019, 2020, 2021, 2022 and 2023 respectively.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
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

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 RSU Plan 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.

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.

OTHER INFORMATION

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

As of June 30, 2020, no proposed grantees had been identified by the Company, and thus no RSUs had been granted or agreed or intended to be granted under the 2020 Restricted Share Unit Scheme.

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 36 to 85, which comprises the consolidated statement of financial position of China Literature Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2020 and the consolidated statement of comprehensive (loss)/income, 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 11, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the six months ended June 30, 2020

	Note	Six months ended June 30,	
		2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Revenues	7	3,260,206	2,970,951
Cost of revenues	8	(1,528,894)	(1,349,801)
Gross profit		1,731,312	1,621,150
Interest income	9	62,048	85,589
Other (losses)/gains, net	10	(3,529,736)	269,572
Selling and marketing expenses	8	(1,270,264)	(976,720)
General and administrative expenses	8	(350,665)	(473,400)
Net (provision for)/reversal of impairment losses on financial assets		(198,258)	1,531
Operating (loss)/profit		(3,555,563)	527,722
Finance costs	11	(38,080)	(93,464)
Share of net profit of associates and joint ventures	18	81,827	82,482
(Loss)/profit before income tax		(3,511,816)	516,740
Income tax benefit/(expense)	12	201,291	(123,520)
(Loss)/profit for the period		(3,310,525)	393,220
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		(65)	(415)
Currency translation differences		77,566	(18,144)
Total comprehensive (loss)/income for the period		(3,233,024)	374,661
(Loss)/profit attributable to:			
– Equity holders of the Company		(3,295,874)	392,722
– Non-controlling interests		(14,651)	498
		(3,310,525)	393,220
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		(3,218,373)	374,168
– Non-controlling interests		(14,651)	493
		(3,233,024)	374,661
(Loss)/earnings per share (expressed in RMB per share)			
– Basic (loss)/earnings per share	13(a)	(3.30)	0.39
– Diluted (loss)/earnings per share	13(b)	(3.31)	0.39

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

	Note	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
ASSETS			
Non-current assets			
Property, plant and equipment	15	36,088	41,521
Right-of-use assets	16	71,633	92,630
Intangible assets	17	7,655,473	12,168,799
Investments in associates and joint ventures	18	796,045	963,551
Financial assets at fair value through profit or loss	20	451,061	457,185
Deferred income tax assets	21	311,192	190,769
Prepayments, deposits and other assets	23	109,025	145,024
		9,430,517	14,059,479
Current assets			
Inventories	24	551,052	606,037
Television series and film rights	25	1,198,470	1,107,671
Financial asset at fair value through profit or loss	20	723,960	–
Trade and notes receivables	26	2,362,021	3,366,078
Prepayments, deposits and other assets	23	799,776	668,351
Restricted bank deposits		74,716	94,787
Term deposits		2,804,892	415,752
Cash and cash equivalents		3,515,018	5,931,849
		12,029,905	12,190,525
Total assets		21,460,422	26,250,004
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	22	645	642
Shares held for RSU scheme	22	(11)	(19)
Share premium	22	16,364,509	16,161,809
Other reserves	27	1,265,040	1,135,387
(Accumulated losses)/retained earnings		(1,197,126)	2,098,748
		16,433,057	19,396,567
Non-controlling interests		(407)	14,244
Total equity		16,432,650	19,410,811

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2020

	Note	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
LIABILITIES			
Non-current liabilities			
Borrowings	29	624,779	–
Lease liabilities	16	29,831	34,371
Long-term payables		22,340	–
Deferred income tax liabilities	21	194,552	322,631
Deferred revenue		32,500	33,462
Financial liabilities at fair value through profit or loss	19	–	535,082
		904,002	925,546
Current liabilities			
Borrowings	29	1,239,436	1,303,072
Lease liabilities	16	41,019	55,558
Trade payables	30	906,326	1,020,676
Other payables and accruals	31	927,746	1,489,689
Deferred revenue		829,284	717,708
Current income tax liabilities		179,959	205,413
Financial liabilities at fair value through profit or loss	19	–	1,121,531
		4,123,770	5,913,647
Total liabilities		5,027,772	6,839,193
Total equity and liabilities		21,460,422	26,250,004

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

On behalf of the board

Cheng Wu

Director

Hou Xiaonan

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	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 losses)/ retained earnings	Sub-total RMB' 000	Non- controlling interests RMB' 000	Total RMB' 000
					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 loss								
- 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	Attributable to equity holders of the Company								Total RMB' 000	
	Share capital RMB' 000	Share premium RMB' 000	Shares held				Retained earnings RMB' 000	Sub-total RMB' 000		Non- controlling interests RMB' 000
			Treasury shares RMB' 000	for RSU scheme RMB' 000	Other reserves RMB' 000					
(Unaudited)										
As of January 1, 2019	649	16,456,555	-	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045	
Comprehensive income/(loss)										
Profit for the period	-	-	-	-	-	392,722	392,722	498	393,220	
Other comprehensive loss										
- Share of other comprehensive loss of an associate (Note 18)	-	-	-	-	(415)	-	(415)	-	(415)	
- Currency translation differences	-	-	-	-	(18,139)	-	(18,139)	(5)	(18,144)	
Total comprehensive (loss)/income for the period	-	-	-	-	(18,554)	392,722	374,168	493	374,661	
Transaction with owners										
Share-based compensation expenses	-	-	-	-	71,639	-	71,639	-	71,639	
Repurchase of shares (not yet cancelled)	-	-	(6,254)	-	-	-	(6,254)	-	(6,254)	
Repurchase and cancellation of shares	-	(9,602)	-	-	-	-	(9,602)	-	(9,602)	
Transfer of vested RSUs	-	(41,928)	-	2	-	-	(41,926)	-	(41,926)	
Dividends paid	-	-	-	-	-	-	-	(7,981)	(7,981)	
Capital injection	-	-	-	-	-	-	-	6,200	6,200	
Acquisition of non-controlling interests	-	-	-	-	(594)	-	(594)	(10,205)	(10,799)	
Transactions with owners in their capacity for the period	-	(51,530)	(6,254)	2	71,045	-	13,263	(11,986)	1,277	
As of June 30, 2019	649	16,405,025	(6,254)	(19)	950,641	1,440,867	18,790,909	74	18,790,983	

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, 2020

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	633,670	138,127
Income tax paid	(92,729)	(140,309)
Net cash generated from/(used in) operating activities	540,941	(2,182)
Cash flows from investing activities		
Placements of term deposits with initial term of over three months	(2,554,892)	(826,100)
Receipts from maturity of term deposits with initial term of over three months	168,928	472,612
Investments in associates and joint ventures	–	(199,061)
Purchase of property, plant and equipment	(7,511)	(5,792)
Purchase of intangible assets	(117,572)	(88,757)
Proceeds from disposals of property, plant and equipment	43	113
Proceeds from disposal of investment in an associate	–	67,916
Interest received	46,430	114,356
Dividends received	–	45,196
Settlement of contingent consideration payable	(1,021,006)	(1,192,777)
Payments for acquisition of financial assets at fair value through profit or loss	–	(12,000)
Settlement of forward foreign currency contract	–	37,018
Net cash used in investing activities	(3,485,580)	(1,587,276)
Cash flows from financing activities		
Proceeds from borrowings	2,081,567	54,650
Repayments of borrowings	(1,520,424)	(901,000)
Finance costs paid	(33,902)	(99,427)
Payment for acquisition of non-controlling interests	–	(10,799)
Payments for repurchase of ordinary shares	–	(15,856)
Repayments to financial investors in TV programs and film production	(33,072)	(61,094)
Dividends paid to non-controlling interests in a subsidiary	–	(7,981)
Principal elements of lease payments	(30,347)	(22,050)
Proceeds from capital injection to a subsidiary	–	2,450
Proceeds from film investors	1,572	–
Receipts of restricted bank deposits	21,000	–
Net cash flows generated from/(used in) financing activities	486,394	(1,061,107)
Net decrease in cash and cash equivalents	(2,458,245)	(2,650,565)
Cash and cash equivalents at beginning of the period	5,931,849	8,342,228
Exchange gains/(losses) on cash and cash equivalents	41,414	(19,287)
Cash and cash equivalents at end of the period	3,515,018	5,672,376

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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, 2020, the related consolidated statement of comprehensive (loss)/income for the six months then ended, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2019 annual report of the Company dated March 17, 2020 (the “2019 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 2019 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 receivable/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, 2020:

Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 3	Definition of a business
Conceptual framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

New standards and amendments to standards effective for the financial year ending December 31, 2020 do not have a material impact on the Group’s Interim Financial Information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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, 2020, and have not been early adopted by the Group in preparing the consolidated financial statements. 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 IAS 28 and IFRS 10	Sales or contribution assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	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 2019 Financial Statements.

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 2019 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2020.

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 and marketable securities. 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, 2020					
Trade payables	906,326	–	–	–	906,326
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	803,643	15,815	3,977	–	823,435
Borrowings (Note 29)	1,239,436	200,000	424,779	–	1,864,215
Lease liabilities (Note 16)	40,905	16,326	15,003	313	72,547
Total	2,990,310	232,141	443,759	313	3,666,523
<hr/>					
	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, 2019					
Trade payables	1,020,676	–	–	–	1,020,676
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	1,211,449	–	–	–	1,211,449
Borrowings (Note 29)	1,303,072	–	–	–	1,303,072
Financial liabilities at fair value through profit or loss (Note 19)	1,021,006	354,180	–	–	1,375,186
Lease liabilities (Note 16)	62,330	27,186	18,269	391	108,176
Total	4,618,533	381,366	18,269	391	5,018,559

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 that are measured at fair values as of June 30, 2020.

	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				
– Contingent consideration receivable related to the acquisition of 100% equity interest of New Classics Media	–	–	723,960	723,960
– Investments in redeemable shares of associates	–	–	421,162	421,162
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	17,899	–	–	17,899
	17,899	–	1,157,122	1,175,021

NOTES TO THE INTERIM FINANCIAL INFORMATION

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, 2019.

	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	–	–	429,842	429,842
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	15,343	–	–	15,343
	15,343	–	441,842	457,185
Liabilities				
Financial liabilities at fair value through profit or loss				
– Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests	–	–	500	500
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions)	–	–	1,656,113	1,656,113
	–	–	1,656,613	1,656,613

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2020.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Fair values estimation (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize 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.

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, 2020.

	Financial assets RMB' 000	Financial liabilities RMB' 000
(Unaudited)		
Six months ended June 30, 2020		
Opening balance – December 31, 2019	441,842	1,656,613
Changes in fair value	714,961	(516,790)
Settlement of contingent consideration payable	–	(1,118,878)
Currency translation differences	319	(20,945)
Closing balance – June 30, 2020	1,157,122	–

NOTES TO THE INTERIM FINANCIAL INFORMATION

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.

As of June 30, 2020 and 2019, the chief operating decision-makers of the Group have identified the following reportable segments:

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

As of June 30, 2020 and 2019, 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 impairment loss on financial assets, other (losses)/gains, net, finance costs, share of profit of investments accounted for using equity method and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2020 and 2019. 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 (loss)/income.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2020 and 2019 is as follows:

	Six months ended June 30, 2020		
	Online business RMB' 000	Intellectual property operations and others RMB' 000	Total RMB' 000
(Unaudited)			
Segment revenues	2,495,405	764,801	3,260,206
Cost of revenues	1,146,247	382,647	1,528,894
Gross profit	1,349,158	382,154	1,731,312
	Six months ended June 30, 2019		
	Online business RMB' 000	Intellectual property operations and others RMB' 000	Total RMB' 000
(Unaudited)			
Segment revenues	1,662,481	1,308,470	2,970,951
Cost of revenues	703,329	646,472	1,349,801
Gross profit	959,152	661,998	1,621,150

The reconciliation of gross profit to (loss)/profit before income tax of individual period during the six months ended June 30, 2020 and 2019 is shown in the consolidated statement of comprehensive (loss)/income.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenue for the six months ended June 30, 2020 and 2019.

As of June 30, 2020 and 2019, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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, 2020	Online business			Intellectual property operations and others		Total RMB' 000
	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	
Timing of revenue recognition:						
– At a point in time	1,848,937	226,915	181,391	279,594	41,268	2,578,105
– Over time	140,811	97,351	–	439,557	4,382	682,101
	1,989,748	324,266	181,391	719,151	45,650	3,260,206

(Unaudited) Six months ended June 30, 2019	Online business			Intellectual property operations and others		Total RMB' 000
	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	
Timing of revenue recognition:						
– At a point in time	864,133	359,042	245,769	781,108	88,799	2,338,851
– Over time	121,208	72,329	–	433,922	4,641	632,100
	985,341	431,371	245,769	1,215,030	93,440	2,970,951

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Promotion and advertising expenses (Note a)	1,027,799	712,198
Platform distribution costs (Note b)	619,313	197,064
Content costs (Note c)	583,608	556,089
Employee benefits expenses (Note d)	260,847	413,405
Payment handling costs	167,560	167,140
Amortization of intangible assets (Note 17)	103,353	83,301
Game development outsourcing costs	55,557	43,523
Provision for physical inventory obsolescence (Note 24)	39,330	32,910
Bandwidth and server custody fees	34,493	27,103
Animation production costs	32,820	37,413
Depreciation of right-of-use assets (Note 16)	32,641	31,343
Professional service fees	31,646	35,069
Impairment loss on prepayments to directors, actors and writers	26,000	–
Impairment loss on television series and film rights (Note 25)	22,425	–
Cost of physical inventories sold (Note 24)	20,557	50,815
Travelling, entertainment and general office expenses	15,789	23,505
Production costs of television series and film rights	12,868	322,278
Depreciation of property, plant and equipment (Note 15)	11,466	10,968
Auditors' remuneration		
– Audit services	5,150	4,938
– Non-audit services	482	212
Logistic expenses	2,397	3,520
Expense relating to short-term leases (Note 16)	2,350	1,587
Others	41,372	45,540
	3,149,823	2,799,921

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE (CONTINUED)

Notes:

- (a) Promotion and advertising expenses also include incremental costs of obtaining sales contracts: 1) pre and post installation promotion expenses that the Group paid to mobile devices manufacturers for its operations of unbranded white-label products, 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 (loss)/income.
- (b) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.
- (c) 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 (loss)/income.
- (d) In connection with the Group's acquisition of New Classics Media in 2018, 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, 2019, the Group recognised post-combination service expense of approximately RMB50,000,000 as employee benefits expenses in the "general and administrative expenses" of the consolidated statement of comprehensive (loss)/income.

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

- (e) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2020 was approximately RMB257,018,000 (six months ended June 30, 2019: RMB242,259,000), which mainly included employee benefits expenses of research and development function staff.

9 INTEREST INCOME

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Interest income on bank deposits	62,048	85,589

NOTES TO THE INTERIM FINANCIAL INFORMATION

10 OTHER (LOSSES)/GAINS, NET

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Fair value gain on remeasurement of contingent consideration receivable/payable (Note a)	1,240,750	194,116
Subsidies and tax rebates	48,449	50,238
Gain on copyright infringements	8,541	3,405
Fair value gain of investment in a listed entity	2,337	–
Impairment loss of goodwill (Note 17)	(4,015,854)	–
Impairment loss of other intangible assets (Note 17)	(537,086)	–
Impairment provision for investments in associates and a joint venture (Note 18)	(251,960)	–
Fair value (loss)/gain of investments in redeemable shares of associates (Note 20)	(8,999)	1,863
Fair value gain of derivative financial asset (Note 20)	–	10,107
(Loss)/gain on disposal of film rights and a television series (Note b)	(10,038)	6,700
Others	(5,876)	3,143
	(3,529,736)	269,572

Note:

- (a) On October 31, 2018, the Group acquired 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. As of June 30, 2020, the remeasurement of the fair value of contingent consideration payable that arising from the acquisition of New Classics Media was based on the valuation performed by the independent external valuation firm. For the six months ended June 30, 2020, fair value gain of approximately RMB1,240,250,000 was charged to "other (losses)/gains, net", and the currency translation difference of approximately RMB20,945,000 was charged to "other comprehensive (loss)/income" in the consolidated statement of comprehensive (loss)/income.
- (b) During the six months ended 30 June 2020, the Group disposed all its economic benefits of a television series with carrying value of approximately RMB151,547,000, and the difference between the carrying value and cash consideration was amounting to approximately RMB10,038,000 and recognised as "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income.

NOTES TO THE INTERIM FINANCIAL INFORMATION

11 FINANCE COSTS

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Interest expenses on borrowings	31,999	93,729
Foreign exchange loss/(gain), net	4,207	(3,378)
Interest expenses on lease liabilities	1,874	2,564
Guarantee expense	–	549
	38,080	93,464

12 INCOME TAX (BENEFIT)/EXPENSE

(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.

According to the relevant tax circulars issued by the PRC tax authorities, a subsidiary of the Group is entitled to certain tax concessions and it is exempt from CIT during the year from its incorporation to December 31, 2020.

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 INCOME TAX (BENEFIT)/EXPENSE (CONTINUED)

(c) PRC corporate income tax (Continued)

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

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Current income tax	47,211	171,882
Deferred income tax	(248,502)	(48,362)
Income tax (benefit)/expense	(201,291)	123,520

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
(Loss)/profit before income tax	(3,511,816)	516,740
Share of profit of associates and joint ventures	(81,827)	(82,482)
Tax calculated at PRC statutory tax rate of 25%	(898,411)	108,565
Effects of respective tax rates applicable to different subsidiaries of the Group	(8,493)	(9,959)
Unrecognized deferred income tax assets	46,564	49,811
Non-deductible expenses less non-taxable income	680,035	(5,960)
Research and development tax credit	(20,986)	(18,937)
Income tax (benefit)/expense	(201,291)	123,520

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 (LOSS)/EARNINGS PER SHARE

- (a) Basic (loss)/earnings per share is calculated by dividing the (loss)/profit 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,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Net (loss)/profit attributable to the equity holders of the Company	(3,295,874)	392,722
Weighted average number of ordinary shares in issue (thousand)	998,186	1,000,452
Basic (loss)/earnings per share (expressed in RMB per share)	(3.30)	0.39

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

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.

For the six months ended June 30, 2019, 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.

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Net (loss)/profit attributable to the equity holders of the Company	(3,295,874)	392,722
Impact of a joint venture's potential ordinary shares	(6,944)	–
Net (loss)/profit used to determine (loss)/earnings per share	(3,302,818)	392,722
Weighted average number of ordinary shares in issue (thousand)	998,186	1,000,452
Adjustments for share-based compensation – RSUs (thousand)	–	9,571
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousand)	998,186	1,010,023
Diluted (loss)/earnings per share (expressed in RMB per share)	(3.31)	0.39

NOTES TO THE INTERIM FINANCIAL INFORMATION

14 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2020 and 2019.

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, 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

	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, 2019						
Opening net book amount as of January 1, 2019	19,090	22,143	3,841	2,622	–	47,696
Additions	3,808	438	115	118	–	4,479
Disposals	(7)	–	(5)	(8)	–	(20)
Depreciation	(4,255)	(5,613)	(700)	(400)	–	(10,968)
Currency translation differences	2	25	(26)	–	–	1
Closing net book amount as of June 30, 2019	18,638	16,993	3,225	2,332	–	41,188

NOTES TO THE INTERIM FINANCIAL INFORMATION

16 LEASES

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

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

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

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000 (Unaudited)
Right-of-use assets		
Properties	70,973	92,234
Vehicle	643	352
Equipment	17	44
	71,633	92,630
Lease liabilities		
Current	41,019	55,558
Non-current	29,831	34,371
	70,850	89,929

Additions to the right-of-use assets during the six months ended June 30, 2020 were RMB19,980,000 (six months ended June 30, 2019: RMB156,292,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

16 LEASES (CONTINUED)

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

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

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Depreciation charge of right-of-use assets		
Properties	(32,469)	(31,212)
Vehicle	(145)	(70)
Equipment	(27)	(61)
	(32,641)	(31,343)
Interest expense (included in finance costs)	1,874	2,564
Expense relating to short-term leases (included in general and administrative expenses)	2,350	1,587
	4,224	4,151

For the six months ended June 30, 2020, the total cash outflow for leases was approximately RMB32,221,000 (six months ended June 30, 2019: RMB24,614,000).

(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 13 months to 8 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

	Non- compete							Total RMB' 000
	Goodwill RMB' 000	agreement RMB' 000	Trademarks RMB' 000	Copyrights of contents RMB' 000	Writers' contracts RMB' 000	Software RMB' 000	Domain names 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
Amortization	-	(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 recognized as "intangible assets" in the consolidated statement of financial position. The aforementioned intangible assets of approximately RMB38,840,000 are amortized over their respective contractual period by using the straight-line method.

	Non- compete					Distribution			Domain names RMB' 000	Total RMB' 000
	Goodwill RMB' 000	agreement RMB' 000	Trademarks RMB' 000	Copyrights of contents RMB' 000	Writers' contracts RMB' 000	channel relationship RMB' 000	Customers relationship RMB' 000	Software RMB' 000		
(Unaudited)										
Six months ended June 30, 2019										
Opening net book amount as of January 1, 2019	10,653,325	23,383	1,132,893	273,251	51,333	800	21	3,615	2,536	12,141,157
Additions	-	-	-	88,536	-	-	-	682	-	89,218
Amortization	-	(3,050)	(13,598)	(57,409)	(7,333)	(400)	(21)	(1,316)	(174)	(83,301)
Currency translation differences	-	-	-	675	-	-	-	2	-	677
Closing net book amount as of June 30, 2019	10,653,325	20,333	1,119,295	305,053	44,000	400	-	2,983	2,362	12,147,751

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

As of June 30, 2020 and December 31, 2019, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Online business	3,720,323	3,720,323
Acquired TV and film business	2,917,148	6,933,002
	6,637,471	10,653,325

During the six months ended June 30, 2020, indicators of goodwill impairment arose in the Group's acquired TV and film business due to the reasons including 1) the film and television industry in mainland China was undergoing profound adjustment as it responds to the fluid and changing macro-environment of the industry, and New Classics Media was experiencing a decline in the number of project filings, productions and releases, as well as lower-than-expected profits from certain individual projects, and 2) the outbreak of the novel coronavirus ("COVID-19") epidemic has continued to affect the macro-economy, and New Classics Media has suffered substantially, due to production delays, uncertain release dates and elongated production cycle for films and television projects.

Accordingly, impairment review on the goodwill relating to acquired TV and film business has been conducted by the management as of June 30, 2020 according to IAS 36 "*Impairment of assets*". 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, 2020, the recoverable amount of goodwill was determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business projection for the purpose of impairment reviews covering a six-year period. 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 recognized an impairment provision of approximately RMB4,015,854,000 against the carrying amount of goodwill relating to acquired TV and film business.

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

The following table sets out the key assumptions for acquired TV and film business CGU:

	As of June 30, 2020	As of December 31, 2019
Gross margin (%)	From 40.9% to 43.8%	From 37.1% to 48.8%
Annual growth rate (%)	From -43.4% to 21.7%	From 3.8% to 29.1%
Pre-tax discount rate (%)	18.7%	18.8%

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business projection approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

Impairment tests for trademarks

Impairment review on the trademarks with indefinite useful life arose from the acquisition of New Classics Media has been conducted by the management as of June 30, 2020 according to IAS 36 “*Impairment of assets*”. Given there is no active market for the Group’s trademarks, the recoverable amount of the trademarks is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business projection for the purposes of impairment reviews covering a six-year period. As of June 30, 2020, the Group recognized an impairment provision of approximately RMB389,816,000 against the carrying amount of trademark relating to acquisition of New Classics Media.

During the six months ended June 30, 2020, indicators of trademarks impairment arose following management’s decision to adjust the Group’s business strategy regarding some of the Group’s self-owned online reading platforms. Accordingly, impairment review on the trademark arising from the acquisition of Cloudary Corporation has been conducted by the management as of June 30, 2020 according to IAS 36 “*Impairment of assets*”. Given there is no active market for the Group’s trademark, the recoverable amount of the trademarks is determined based on the value-in-use calculations. As of June 30, 2020, the Group made an impairment provision of approximately RMB94,114,000 against the carrying amount of trademarks relating to acquisition of Cloudary Corporation.

Impairment tests for 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*”. Given there is no active market for the above-mentioned copyrights, 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Investments in associates (a)	255,111	469,943
Investments in joint ventures (b)	540,934	493,608
	796,045	963,551

(a) Investments in associates

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
At the beginning of the period	469,943	307,794
Additions	–	136,471
Share of net (loss)/profit of associates	(1,233)	22,214
Share of other comprehensive loss of associates	(990)	(415)
Liquidation of an associate	–	(70,666)
Impairment provision	(214,837)	–
Currency translation differences	2,228	345
At the end of the period	255,111	395,743

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
At the beginning of the period	493,608	373,124
Additions	–	85,061
Dividend from a joint venture	–	(45,000)
Share of net profit of the joint ventures	83,060	60,268
Share of other comprehensive income of a joint venture	925	–
Impairment provision	(37,123)	–
Currency translation differences	464	–
At the end of the period	540,934	473,453

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.

(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 intellectual property monetization 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, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss (Note 20):		
– Contingent consideration receivable related to the acquisition of 100% equity interest of New Classics Media (Note 10)	723,960	–
– Other financial assets at fair value through profit or loss	451,061	457,185
Financial assets at amortized cost:		
– Trade and notes receivables (Note 26)	2,362,021	3,366,078
– Deposits and other assets (current and non-current portions) (Note 23)	250,608	169,493
– Term deposits (current and non-current portions)	2,804,892	415,752
– Cash and cash equivalents	3,515,018	5,931,849
– Restricted bank deposits	74,716	94,787
	10,182,276	10,435,144
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests	–	500
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 10)	–	1,656,113
Financial liabilities at amortized cost:		
– Trade payables (Note 30)	906,326	1,020,676
– Lease liabilities (current and non-current portions)	70,850	89,929
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 31)	767,328	1,110,054
– Borrowings (current and non-current portions) (Note 29)	1,864,215	1,303,072
– Long-term payables	22,340	–
	3,631,059	5,180,344

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 amortized 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.

Financial assets at fair value through profit or loss include the following:

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Included in non-current assets:		
Investments in redeemable shares of associates (Note a)	421,162	429,842
Investments in unlisted entities	12,000	12,000
Investment in a listed entity	17,899	15,343
	451,061	457,185
Included in current assets:		
Contingent consideration receivable (Note 10)	723,960	–
	1,175,021	457,185

Movement of financial assets at fair value through profit or loss is analysed as follows:

	Six months ended June 30, 2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
At the beginning of the period	457,185	470,941
Additions	–	12,000
Changes in fair value	717,298	11,970
Conversion of an associate's preferred shares to ordinary shares	–	(23,000)
Settlement of forward foreign currency contract	–	(36,911)
Currency translation difference	538	–
At the end of the period	1,175,021	435,000

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)

Note:

- (a) 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 audio 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 of the investment and copyrights licensed are initially measured at fair value. In 2017, the Group made investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in the Group's previous subsidiary Shanghai Foch Film Culture Investment Co., Ltd. ("Foch").

In 2018, the Group entered into a share subscription and capital injection agreement with an investee company, which is principally engaged in the animation productions, to subscribe for its redeemable ordinary shares at a total consideration of approximately RMB48,537,000, which represented approximately 30.34% equity interests of the investee on an outstanding and fully converted basis.

In 2018, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in South Korea, to subscribe for its preferred shares at a total consideration of approximately USD3,351,000 (equivalent to approximately RMB23,000,000), which represented approximately 4.42% equity interests of the investee on an outstanding and fully converted basis. On April 4, 2019, the Group fully converted its preferred shares into ordinary shares on a 1:1 basis. As of June 30, 2020, the Group held 25.22% equity interests of the investee company.

In 2019, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in Thailand, to subscribe for its ordinary shares and preferred shares at a total consideration of approximately USD5,947,000 and USD4,564,000, respectively, (equivalent to approximately RMB41,945,000 and RMB32,193,000, respectively), which represented approximately 13.4% and 6.6% equity interest of the investee on an outstanding and fully converted basis. The investment in ordinary shares of the aforementioned investee is accounted for as "investment in associates" while investment in its preferred shares is accounted for as "financial assets at fair value through profit or loss".

These aforementioned investments held by the Group contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group accounts for such investments as financial assets at fair value through profit or loss.

As of June 30, 2020, the Group used the market approach to determine the fair value of investment in redeemable shares of the associate that engaged in provision of audio online publishing service and key assumption used was the IPO probability of 45% as of June 30, 2020 (December 31, 2019: 45%).

As of June 30, 2020, the Group used the market approach to determine the fair value of the investment in redeemable shares of Foch and key assumption used was the IPO probability of 40% as of June 30, 2020 (December 31, 2019: 40%).

As of June 30, 2020, the Group used the market approach to determine the fair value of the investment in redeemable shares of the associate that engaged in online reading business in Thailand and key assumption used was the IPO probability of 45% as of June 30, 2020.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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

(b) Amounts recognized in profit or loss

During the periods, the following gains were recognized in profit or loss:

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Fair value gain on financial assets at fair value through profit or loss		
– Fair value gain of contingent consideration receivable (Note 10)	723,960	–
– Fair value gain of investment in a listed entity	2,337	–
– Fair value (loss)/gain of investments in redeemable shares of associates	(8,999)	1,863
– Fair value gain of derivative financial assets	–	10,107
	717,298	11,970

21 DEFERRED INCOME TAXES

The movements in deferred income tax assets and liabilities during the periods, without taking into consideration the offsetting of balances within the same jurisdiction, 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	Other temporary differences RMB' 000	Total RMB' 000
(Unaudited)						
As of January 1, 2020	57,200	73,427	(284,325)	–	21,836	(131,862)
Recognized in the profit or loss	43,810	29,951	132,477	38,742	3,522	248,502
As of June 30, 2020	101,010	103,378	(151,848)	38,742	25,358	116,640
(Unaudited)						
As of January 1, 2019	50,404	10,978	(338,015)	1,500	(79,116)	(354,249)
Recognized in the profit or loss	(2,366)	3,544	16,836	–	30,348	48,362
As of June 30, 2019	48,038	14,522	(321,179)	1,500	(48,768)	(305,887)

Deferred income tax assets are recognized for tax losses carried forward and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As of June 30, 2020, the Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB156,413,000 (December 31, 2019: RMB216,200,000). These tax losses will primarily expire from 2020 to 2024.

NOTES TO THE INTERIM FINANCIAL INFORMATION

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB' 000	Share premium RMB' 000	Treasury shares 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

	Number of ordinary shares	Share capital RMB' 000	Share premium RMB' 000	Treasury shares RMB' 000	Shares held for RSU scheme RMB' 000	Total RMB' 000
(Unaudited)						
As of January 1, 2019	1,022,554,246	649	16,456,555	–	(21)	16,457,183
Transfer of vested RSUs	–	–	(41,928)	–	2	(41,926)
Repurchase and cancellation of shares (Note a)	(335,400)	–	(9,602)	–	–	(9,602)
Repurchase of shares (not yet cancelled) (Note a)	–	–	–	(6,254)	–	(6,254)
As of June 30, 2019	1,022,218,846	649	16,405,025	(6,254)	(19)	16,399,401

Notes:

- (a) During the six months ended June 30, 2019, the Group repurchased a total of 545,600 ordinary shares that listed on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was approximately HKD18,003,000 (approximately RMB15,856,000). As of June 30, 2019, 335,400 out of 545,600 repurchased ordinary shares had been cancelled and deducted from the share capital and share premium within shareholders' equity, and the remaining 210,200 shares were recorded as treasury shares as of June 30, 2019.

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Non-current:		
Prepayment to directors, actors and writers (Note a)	109,025	131,778
Deposits and prepayments	–	13,246
	109,025	145,024
Current:		
Prepayment for production of television series and films	144,820	139,920
Prepayments to vendors and online writers	120,776	140,522
Receivable from co-producers and others on production of television series and films	112,850	137,434
Recoverable value-added tax	86,672	76,320
Deferred costs	104,574	48,406
Amounts due from related parties	88,847	28,034
Interests receivable	25,148	9,530
Prepayment to directors, actors and writers (Note a)	23,150	22,264
Rental and other deposits	23,146	18,259
Prepaid corporate income tax	29,593	9,529
Royalty advances	6,965	7,612
Prepayment for an overseas licensed film right	6,440	6,417
Staff advances	5,223	9,850
Others	21,572	14,254
	799,776	668,351

Note:

- (a) As of June 30, 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, 2020 and December 31, 2019. Deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

NOTES TO THE INTERIM FINANCIAL INFORMATION

24 INVENTORIES

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Adaptation rights and scripts (Note 25)	490,623	509,753
Raw materials	8,610	9,308
Work in progress	9,398	12,806
Inventories in warehouse	81,853	81,073
Inventories held with distributors on consignment	83,556	88,415
Others	8,202	7,026
	682,242	708,381
Less: provision for inventory obsolescence	(131,190)	(102,344)
	551,052	606,037

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, 2020, the cost of inventories, including provision for inventory obsolescence, recognized as expense and included in “cost of revenues” amounted to approximately RMB103,271,000 (six months ended June 30, 2019: RMB83,725,000).

During the six months ended June 30, 2020, write-downs of inventories to net realisable value and reversal of write-downs of inventories that recognized as expense and included in “cost of revenues” were amounting to approximately RMB44,435,000 and RMB10,485,000 (six months ended June 30, 2019: RMB32,910,000 and RMB33,109,000), respectively.

25 TELEVISION SERIES AND FILM RIGHTS

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Television series and film rights		
– under production	889,500	655,723
– completed	308,970	451,948
	1,198,470	1,107,671

NOTES TO THE INTERIM FINANCIAL INFORMATION

25 TELEVISION SERIES AND FILM RIGHTS (CONTINUED)

	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
Recognized in cost of revenues (Note a)	(21,792)	(46,321)	(68,113)
Recognised in other (losses)/gains, net (Note 10)	–	(151,547)	(151,547)
As of June 30, 2020 (Note b)	889,500	308,970	1,198,470

	Adaptation rights and scripts RMB' 000	Under production RMB' 000	Completed RMB' 000	Total RMB' 000
(Unaudited)				
As of January 1, 2019	709,491	1,416,202	731,363	2,857,056
Transfer to inventories	(709,491)	–	–	(709,491)
Additions	–	603,441	2,809	606,250
Transfer from under production to completed	–	(640,730)	640,730	–
Transfer from adaptation rights and scripts to under production	–	107,820	–	107,820
Recognized in cost of revenues	–	–	(359,691)	(359,691)
As of June 30, 2019 (Note b)	–	1,486,733	1,015,211	2,501,944

Notes:

- (a) During the six months ended June 30, 2020, impairment loss of approximately RMB22,425,000 was provided for the Group's completed television series and film rights (six months ended June 30, 2019: Nil).
- (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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

26 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, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Trade and notes receivables		
– Up to 3 months	784,168	2,648,932
– 3 to 6 months	78,811	146,655
– 6 months to 1 year	1,254,652	308,289
– 1 to 2 years	174,746	239,494
– Over 2 years	69,644	22,708
	2,362,021	3,366,078

As of June 30, 2020 and December 31, 2019, 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. As of June 30, 2020, only insignificant amounts of the remaining balances were past due.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as of June 30, 2020 and December 31, 2019.

As of June 30, 2020, the carrying amounts of the trade receivables included approximately RMB224,700,000 receivables (December 31, 2019: RMB324,230,000) which were pledged for certain bank borrowings (Note 29).

NOTES TO THE INTERIM FINANCIAL INFORMATION

27 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	Total RMB' 000
(Unaudited)							
As of January 1, 2020	34,127	352,047	10,964	642,157	131,923	(35,831)	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	-	(65)	-	-	-	-	(65)
As of June 30, 2020	34,127	429,548	10,964	694,309	131,923	(35,831)	1,265,040
(Unaudited)							
As of January 1, 2019	34,127	296,835	10,964	500,588	86,573	(30,937)	898,150
Currency translation differences	-	(18,139)	-	-	-	-	(18,139)
Share-based compensation expenses	-	-	-	71,639	-	-	71,639
Acquisition of non-controlling interests (Note a)	-	-	-	-	-	(594)	(594)
Share of other comprehensive loss of an associate	-	(415)	-	-	-	-	(415)
As of June 30, 2019	34,127	278,281	10,964	572,227	86,573	(31,531)	950,641

Note:

- (a) During the six months ended June 30, 2019, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, New Classics Energy Co., Ltd., and the aggregate net excess of considerations over the carrying amounts of acquired net non-controlling interests, being approximately RMB1,349,000, was recognized directly in equity.

During the six months ended June 30, 2019, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, Ningbo Yuewen Wenxing Investment Management Co., Ltd., and the aggregate net excess of carrying amounts of acquired net non-controlling interests over the considerations, being approximately RMB755,000, was recognized directly in equity.

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 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.

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. As at June 30, 2020, no RSUs have been granted under the 2020 Restricted Share Unit Scheme.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
(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
(Unaudited)	
As of January 1, 2019	17,477,000
Granted	235,000
Forfeited	(325,500)
Vested	(1,112,500)
Outstanding balance as of June 30, 2019	16,274,000

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

29 BORROWINGS

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000
Non-current		
Unsecured		
RMB bank borrowings (Note a)	200,000	–
USD bank borrowings (Note a)	424,779	–
Total non-current borrowings	624,779	–
Current		
Unsecured		
RMB bank borrowings (Note a)	1,048,947	1,102,517
Secured		
RMB bank borrowings (Note b)	190,489	200,555
Total current borrowings	1,239,436	1,303,072
Total borrowings	1,864,215	1,303,072

Notes:

- (a) As of June 30, 2020, the Group's unsecured long-term bank borrowings consist of RMB200,000,000 fixed-rate borrowings bearing interest rate of 5.70% per annum and approximately RMB424,779,000 variable-rate borrowings bearing floating interest rate of London Inter-bank Offered Rate ("LIBOR") plus 1.1% per annum. The fixed-rate long-term bank borrowings of RMB200,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of New Classics Media) (or referred to as "Mr. Cao") and/or other subsidiaries of the Group, among which RMB70,000,000 and RMB130,000,000 will be repayable in April and June, 2022, respectively. The variable-rate long-term bank borrowings of approximately RMB424,779,000 will be repayable in February 2023.

As of December 31, 2019, the Group's unsecured long-term bank borrowings consist of RMB200,000,000 borrowings bearing fixed interest rate of 5.70% per annum. These long-term bank borrowings were guaranteed by Mr. Cao. As of December 31, 2019, the borrowing balance of RMB200,000,000 were reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2019, and had been repaid during the six months ended June 30, 2020.

As of June 30, 2020, the Group's unsecured short-term bank borrowings consist of approximately RMB1,048,947,000 fixed-rate borrowings, bearing interests ranging from 3.6% to 5.220% per annum, among which approximately RMB448,947,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

As of December 31, 2019, the Group's unsecured short-term bank borrowings consist of RMB902,517,000 fixed-rate borrowings, bearing interests ranging from 3.6% to 5.220% per annum, among which approximately RMB272,517,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group. Fixed-rate borrowings of RMB30,000,000 had been repaid during the six months ended June 30, 2020.

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 BORROWINGS (CONTINUED)

Notes: (Continued)

- (b) As of June 30, 2020, the Group's secured short-term bank borrowings consist of approximately RMB190,489,000 bearing fixed interest rate of 5.133% per annum. These short-term bank borrowings of approximately RMB70,489,000 were secured by USD9,000,000 and RMB11,000,000 restricted bank deposits. The other short-term bank borrowings of RMB120,000,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group, and were secured by certain receivables (Note 26).

As of December 31, 2019, the Group's secured short-term bank borrowings consist of approximately RMB200,555,000 borrowings bearing fixed interest rate of 5.133% per annum. These short-term bank borrowings of approximately RMB80,555,000 were secured by USD9,000,000 and RMB32,000,000 restricted bank deposits, among which approximately RMB15,555,000 had been repaid during the six months ended June 30, 2020. The other short-term bank borrowings of RMB120,000,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group, and were secured by certain receivables (Note 26).

30 TRADE PAYABLES

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

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
– Up to 3 months	490,226	775,350
– 3 to 6 months	149,972	115,631
– 6 months to 1 year	148,279	46,293
– 1 to 2 years	80,255	43,990
– Over 2 years	37,594	39,412
	906,326	1,020,676

NOTES TO THE INTERIM FINANCIAL INFORMATION

31 OTHER PAYABLES AND ACCRUALS

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	214,209	610,102
Advertising and marketing expense accruals	184,283	150,718
Payments received from co-producer (Note b)	114,668	82,282
Staff costs and welfare accruals	101,336	226,972
Payables to financial investors in TV programs and film production	91,066	122,566
Other tax payable	44,973	138,554
Payables related to transfer of intangible assets	36,409	9,723
Outsourcing game development fee payable	32,118	28,733
Professional service fee payable	14,346	17,790
Special funds payable	14,109	14,109
Payables due to a non-controlling shareholder	12,388	12,689
Individual income tax refunds payable	10,075	8,660
Interests payable	1,648	1,677
Logistic fee payable	1,024	1,076
Sales rebate accruals	550	1,441
Others	54,544	62,597
	927,746	1,489,689

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 agreement.

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 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
Shenzhen Tencent Computer Systems Co., Ltd.	Fellow subsidiary
Shenzhen Shiji Kaixuan Technology Co., Ltd.	Fellow subsidiary
Tencent Technology (Shenzhen) Co., Ltd.	Fellow subsidiary
Tencent Cloud Computing (Beijing) Co., Ltd.	Fellow subsidiary
Tencent Technology (Beijing) Co., Ltd.	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Tencent Film Culture Co., Ltd.	Fellow subsidiary
Beijing BIZCOM Technology Company Limited	Fellow subsidiary
Shenzhen Tencent Animation and Comics Co., Ltd.	Fellow subsidiary
Tencent Music Entertainment Group	Fellow subsidiary
Beijing Tencent Culture Media Co., Ltd.	Fellow subsidiary
Beijing Jinjiang Networking Technology Co., Ltd.	Joint venture of the Group
Shenzhen Lazy Online Technology Co., Ltd.	Joint venture of the Group
Khorgas Fanrenxianjie Media Co., Ltd.	Joint venture of the Group
Hangzhou Wawayu Animation Design Co., Ltd.	Associate of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group
Chongqing Caiseqianbi Animation Design Co., Ltd.	Associate of the Group
Shanghai Yuedong Film Culture Co., Ltd.	Associate of the Group
Shanghai Kaca Entertainment Co., Ltd.	Associate of the Group
Tianjin Maoyan Weiyong Media Co., Ltd.	Associate of the ultimate holding company
JD.com, Inc.	Associate of the ultimate holding company
Sogou, Inc.	Associate of the ultimate holding company
Guangzhou Tianwen Kadokawa Animation and Comics Co., Ltd.	Associate of the ultimate holding company
Khorgas Linmon Pictures Media Co., Ltd.	Associate of the ultimate holding company
Tibet Tongkan Future Film and Culture Media Co., Ltd.	Associate of the ultimate holding company
Beijing Linglong Culture Development Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Fellow subsidiaries	280,121	199,752
Associates of the ultimate holding company (Note)	13,233	9,628
Associates of the Group	6,020	1,941
Joint venture of the Group	11,114	42,012
	310,488	253,333

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

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Fellow subsidiaries	134,560	163,329
Associates of the ultimate holding company	6,479	25,191
Associates of the Group	29,763	8,701
Joint ventures of the Group	1,763	2,503
	172,565	199,724

Note:

For the related party transactions disclosed in Note 32, 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, whose related parties transactions are disclosed separately.

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Interest expense

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Fellow subsidiary	–	45,074

The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

(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, 2020, the Group has not utilized any loan facility provided by the fellow subsidiary.

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

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Trade receivables		
Fellow subsidiaries (Note)	910,817	1,375,305
Associates of the ultimate holding company	7,215	14,912
Associates of the Group	6,420	9,891
Joint ventures of the Group	6,081	8,330
	930,533	1,408,438

NOTES TO THE INTERIM FINANCIAL INFORMATION

32 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Prepayments, deposits and other receivables		
Fellow subsidiaries	83,411	20,342
Associates of the ultimate holding company	4,841	6,061
Associate of the Group	595	1,631
	88,847	28,034
	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Trade payables		
Fellow subsidiaries	16,693	20,832
Associates of the ultimate holding company	5,113	321
Associates of the Group	94	1,669
Joint ventures of the Group	587	947
	22,487	23,769

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

Note:

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

32 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As of June 30, 2020 RMB' 000 (Unaudited)	As of December 31, 2019 RMB' 000
Other payables and accruals		
Fellow subsidiaries	119,169	213,502
Associates of the ultimate holding company	14,339	1,205
Associate of the Group	3	–
	133,511	214,707

(f) Key management personnel compensations

	Six months ended June 30,	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Salaries, wages and bonuses	3,397	6,053
Other social security costs, housing benefits and other employee benefits	102	107
Pension costs – defined contribution plans	16	161
Share-based compensation expenses	–	1,861
	3,515	8,182

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 SUBSEQUENT EVENT

Since the outbreak of COVID-19 continues to spread around the world and its duration is still uncertain, a prolonged coronavirus pandemic may possibly have an adverse impact on the Group's future TV and film financial performance, even though part of the impact has been reflected into the first half year of 2020.

While the Group's TV and film productions have been gradually resumed and movie theatres in low risk areas of China have already reopened, the Group will continue to closely monitor the latest development of the outbreak of COVID-19 so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

Except for the non-adjusting subsequent event as described above, there is no other significant event occurred subsequently during the period from June 30, 2020 to the approval date of the Interim Financial Information by the Board of Directors on August 11, 2020.

DEFINITIONS

“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 restricted stock unit(s) granted under the RSU Plan;
“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;
“Company”, “our Company”, “the Company”	:	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;
“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;

DEFINITIONS

“IP”	:	intellectual property;
“IPO”	:	initial public offering;
“IPO Proceeds”	:	the total net proceeds of HKD7,235 million from the Company’s global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses;
“Listing Date”	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
“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 Holdings Limited (NCM)”	:	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;
“Prospectus”	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;

DEFINITIONS

“Reporting Period”	:	the six months ended June 30, 2020;
“RMB”	:	the lawful currency of the PRC;
“RSU(s)”	:	in the case of the RSU Plan, the restricted stock unit(s), and in the case of the 2020 Restricted Share Unit Scheme, the restricted share 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;
“Shanghai Hongwen”	:	Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008;
“Shanghai Yuewen”	:	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014;
“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);
“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); and
“USD”	:	the lawful currency of the United States;
“2020 Restricted Share Unit Scheme”	:	a restricted share unit scheme of the Company adopted on May 15, 2020.



阅文集团

CHINA LITERATURE

