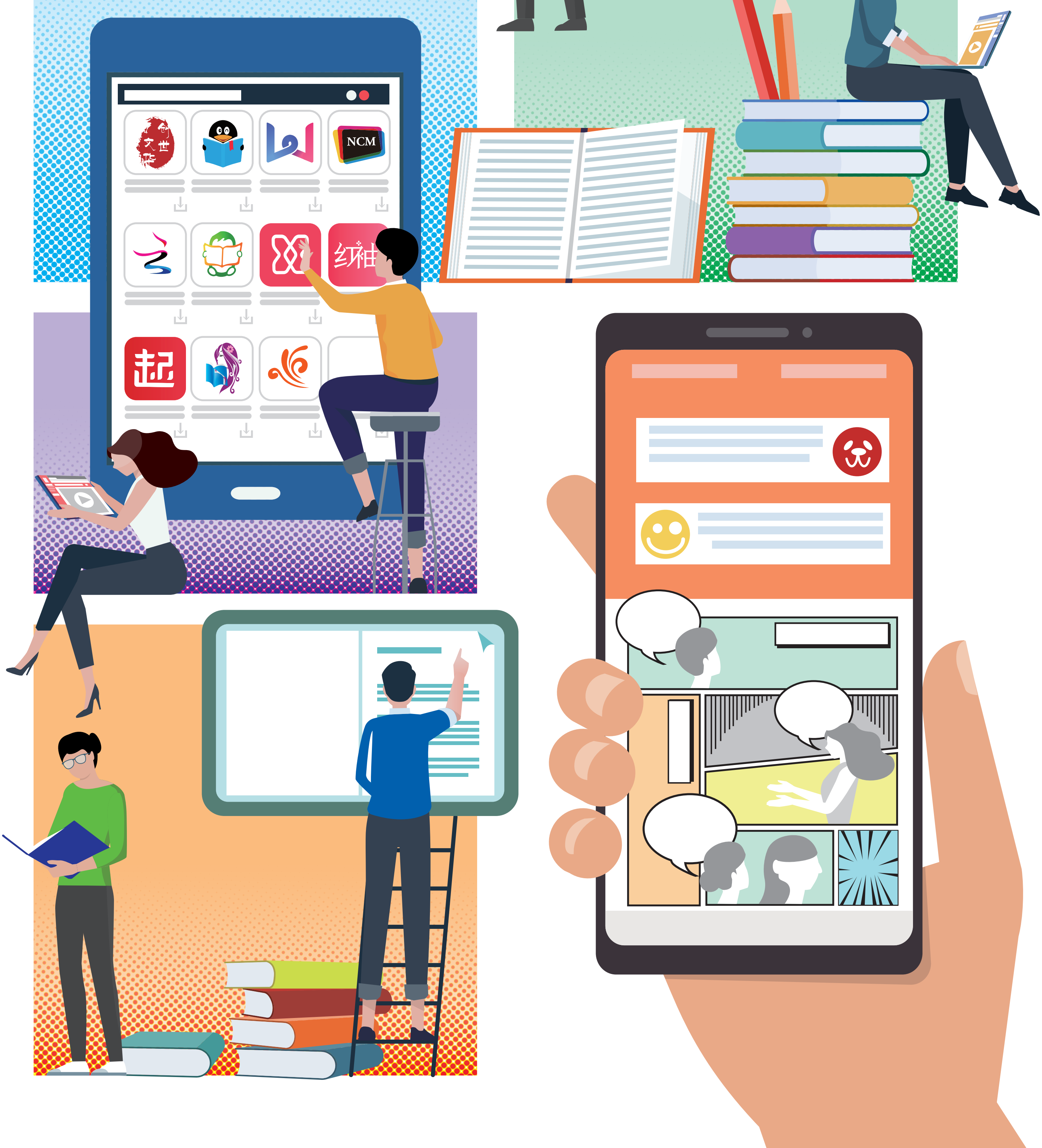
阅文集团
CHINA LITERATURE

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

ANNUAL REPORT 2020



CONTENTS

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. Cheng Pui Yan *(appointed on December 9, 2020)*
Mr. Liang Xiaodong *(resigned on April 27, 2020)*
Ms. Lai Siu Kuen *(resigned on December 9, 2020)*

Joint Company Secretaries

Ms. Xu Lan *(appointed on December 9, 2020)*
Ms. Cheng Pui Yan *(appointed on December 9, 2020)*
Mr. Zhao Jincheng *(retired on November 7, 2020)*
Ms. Lai Siu Kuen *(resigned on December 9, 2020)*

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
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head Office and Principal Place of Business in China

Block 6, No. 690 Bi Bo Road
Pudong XinQu
Shanghai
PRC

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Principal Banker

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

Company's Website

http://ir.yuewen.com/

Stock Code

772

FINANCIAL PERFORMANCE HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	Year ended December 31,				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	**8,525,701**	8,347,767	5,038,250	4,095,066	2,556,866
Gross profit	**4,234,076**	3,692,023	2,557,979	2,075,440	1,054,847
Operating (loss)/profit	**(4,474,668)**	1,193,907	1,114,951	614,563	33,323
(Loss)/profit before income tax	**(4,538,720)**	1,179,797	1,077,801	645,730	38,318
(Loss)/profit for the year	**(4,500,197)**	1,112,134	912,398	562,692	30,360
(Loss)/profit attributable to equity holders of the Company	**(4,483,869)**	1,095,953	910,636	556,129	36,683
Total comprehensive (loss)/income for the year	**(4,532,508)**	1,167,355	1,342,293	412,562	57,589
Total comprehensive (loss)/income attributable to equity holders of the Company	**(4,516,202)**	1,151,165	1,340,538	405,999	63,912
Non-IFRS profit attributable to equity holders of the Company	**917,105**	1,194,618	900,490	721,817	85,255

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**9,815,429**	14,059,479	13,556,968	5,703,237	5,016,493
Current assets	**11,500,331**	12,190,525	14,277,638	9,434,131	2,115,212
Total assets	**21,315,760**	26,250,004	27,834,606	15,137,368	7,131,705
Equity and liabilities					
Equity attributable to equity holders of the Company	**15,093,507**	19,396,567	18,403,478	12,621,196	5,166,225
Non-controlling interests	**5,000**	14,244	11,567	41,514	42,057
Total equity	**15,098,507**	19,410,811	18,415,045	12,662,710	5,208,282
Non-current liabilities	**2,000,091**	925,546	2,823,250	710,492	264,957
Current liabilities	**4,217,162**	5,913,647	6,596,311	1,764,166	1,658,466
Total liabilities	**6,217,253**	6,839,193	9,419,561	2,474,658	1,923,423
Total equity and liabilities	**21,315,760**	26,250,004	27,834,606	15,137,368	7,131,705

CHAIRMAN'S STATEMENT

I am pleased to present our annual report for the year ended December 31, 2020 to our shareholders. 2020 was a challenging year for a variety of reasons, but we have taken steps to address these challenges with upgrades in content, platform, and ecosystem.

BUSINESS HIGHLIGHTS

Upgrades in content. There was an increase in both the number and quality of our writers and literary works. As of the end of 2020, China Literature had more than 9 million writers on the platform, with a total of 13.9 million literary works. Approximately 46 billion Chinese characters were added to our platform during 2020. According to Baidu's search rankings for novels in February 2021, 26 of the top 30 online literary works originated on the China Literature platform. At the same time, we improved our writer ecosystem and IP incubation resources. More writers had positive impressions of our ecosystem and IP practices, including some of the platinum writers who left China Literature and have come back to us as a result of the changes we have made. This has strengthened our partnership with writers, and our reputation as the best partner to writers.

Upgrades in platform. We have expanded our relationship with Tencent channels such as QQ Browser and Mobile QQ by distributing free-to-read content to a wider range of readers. In addition, we established a free reading content decision committee to provide dedicated coordination and management of free content and to incubate high-quality free literary works and writers. In December 2020, average DAUs for our free reading channels reached approximately 10 million users. We will continue to explore the field of free reading so as to make more progress in this area in 2021.

Upgrades in ecosystem. We are enhancing the quality and visibility of our IPs across media formats, including comics, animation, film, TV and web series. This approach has already landed us a number of blockbusters. For example, the drama series My Heroic Husband (贅婿), which was jointly produced by New Classics Media, Tencent Pictures and China Literature Pictures, was a successful adaptation from our novel of the same name. The drama series ranked No.1 on Enlightent's web series playlist during its launch period, enjoying wide market popularity and winning praise from various media. Its success reflects the power of the three-way "New Classics Media-Tencent Pictures-China Literature Pictures" partnership, and we look forward to seeing more quality works from this cooperation model in the future.

Another example is the drama series Soul Land (斗羅大陸), which was also adapted from China Literature's IP and produced by New Classics Media. It was ranked No.1 on Tencent Video's hot search list and drama series list with over 4 billion video views, and brought more attention to the accompanying Soul Land animation series and online game. New Classics Media has also launched high-quality series with modern themes, such as My Best Friend's Story (流金歲月), which was again ranked No. 1 on the playlist of Enlightent's TV series during its launch period following the success of The First Half of My Life (我的前半生). New Classics Media also participated in the production of the recent hit movie Hi, Mom (你好, 李煥英), with box office sales of over RMB5 billion, the second-highest ranking box office sales in the history of China's film industry. We believe that New Classics Media will have more room to grow as part of the ecosystem of China Literature.

CHAIRMAN'S STATEMENT

Upgrades in team. We believe that our core executive team is now stronger and more diverse, as a result of introducing new leaders with extensive industry experience and notable entrepreneurial spirit in the areas of IP operations, online business, investment, legal and finance. At the same time, we have upgraded our hiring criteria, in order to build a team that is passionate about content and dedicated to improving the organizational efficiency of the company overall.

We believe that our organizational structure has become more flexible and inclusive. For example, we have established a Joint Committee between China Literature's Comics & Animation Department and Tencent Comics, and a Joint Committee between China Literature Pictures, New Classics Media and Tencent Pictures. We are seeking to prioritize the longevity of our IPs, treating each IP licensing agreement as the beginning of a long-term IP life cycle. To support this approach to decision-making, we have established an IP-focused service platform, with functional segments including writer services, IP screening and planning, and ecosystem partnerships, which has systematized and standardized our IP licensing procedure. Based on the capacities built into this IP platform, we can strengthen ecosystem partnerships, expand production capacity, achieve improvements in quality and quantity, and increase the value of IPs to the benefit of all their creators, incubators, and fans.

SIGNIFICANT BUSINESS DEVELOPMENTS IN 2020

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

- We improved our writer's ecosystem, and provided writers with better services and experiences. For example, a new grading system for contracts enables writers to choose how they prefer to collaborate with us. We changed the editing and support system so that our writers could choose their own editors. We also introduced a new mechanism to improve welfare and provide better IP protections for writers.

- We established Qidian Academy in order to provide an all-round, multi-level tiered system to nurture writers. Video views for its online courses exceeded 2 million within one month.

- Generation Z writers have become an important part of the supply of new writers. Writers born after the 1990s made up half on our top 12 writers list during the year of 2020.

- We improved our reading community through functions such as instant comments and replies, user-generated audio readings for texts, and user generated chapters, which enhanced user loyalty and participation. By the end of 2020, more than 100 literary works each had over 1 million user comments. We improved our recommendation system, allowing users to find their preferred books more quickly. In addition, big data analysis tools became an important means to assist our editors to screen and nurture content.

CHAIRMAN'S STATEMENT

- The National Library of China collected 100 literary works from the China Literature platform. The list includes stories rooted in traditional culture such as Joy of Life (慶餘年) and Nirvana in Fire (瑯琊榜), stories focusing on China's industrial development such as Great Power Heavy Industry (大國重工) and Material Empire (材料帝國), stories about the lives and careers of ordinary people such as China Railway Man (中國鐵路人), Doctor Lingran (大醫凌然) and A Story of Police Man (朝陽警事), as well as stories that show concern about vulnerable groups in society such as Memoirs of Jade Hall (玉堂留故).

- In 2020, we licensed approximately 200 IP rights for adaptation. Many of our IPs licensed to third-party partners were adapted into popular online content, such as the drama series Love and Redemption (琉璃) and Legendary Cook (人間煙火花小廚). We also released a number of new seasons for existing animated titles including Stellar Transformations (星辰變), Martial Universe (武動乾坤), The King's Avatar (全職高手), Fighter of the Destiny (擇天記) and Fulltime Master (全職法師).

- We continued to expand into international markets. As of the end of 2020, WebNovel, our foreign language website and mobile platform, offered approximately 1,000 works translated from Chinese and over 200,000 original content works created locally. WebNovel generated 54 million user visits in 2020.

OUTLOOK

Looking ahead, we will build around our content, platform and ecosystem, creating a sustainable growth trajectory and laying a solid foundation to explore new businesses. We hope that more users will enjoy China Literature's IPs across a wide range of entertainment formats, including text, comics, animation, audio, film, TV series and games. And, we will promote partnerships with industry participants to fully realize the growth potential of the IP industry.

APPRECIATION

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

Sincerely,
Mr. James Gordon Mitchell
Chairman of the Board and Non-Executive Director

Hong Kong, March 23, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

	Year Ended December 31,	
	2020	2019
	RMB'000	RMB'000
Revenues	**8,525,701**	8,347,767
Cost of revenues	**(4,291,625)**	(4,655,744)
Gross profit	**4,234,076**	3,692,023
Interest income	**116,315**	157,539
Other (losses)/gains, net	**(5,322,903)**	453,194
Selling and marketing expenses	**(2,498,187)**	(2,073,937)
General and administrative expenses	**(873,766)**	(1,010,282)
Net provision for impairment losses on financial assets	**(130,203)**	(24,630)
Operating (loss)/profit	**(4,474,668)**	1,193,907
Finance costs	**(68,785)**	(172,618)
Share of net profit of associates and joint ventures	**4,733**	158,508
(Loss)/profit before income tax	**(4,538,720)**	1,179,797
Income tax benefit/(expense)	**38,523**	(67,663)
(Loss)/profit for the year	**(4,500,197)**	1,112,134
Attributable to:		
Equity holders of the Company	**(4,483,869)**	1,095,953
Non-controlling interests	**(16,328)**	16,181
	(4,500,197)	1,112,134
Non-IFRS profit for the year	**900,777**	1,210,837
Attributable to:		
Equity holders of the Company	**917,105**	1,194,618
Non-controlling interests	**(16,328)**	16,219
	900,777	1,210,837

Revenues. Revenues increased by 2.1% to RMB8,525.7 million for the year ended December 31, 2020 on a year-over-year basis. The following table sets out our revenues by segment for the year ended December 31, 2020 and 2019:

	Year ended December 31,			
	2020		2019	
	RMB'000	**%**	RMB'000	%
Online business(1)				
On our self-owned platform products	**3,903,447**	**45.8**	2,425,142	29.1
On our self-operated channels on Tencent products	**681,805**	**8.0**	836,027	10.0
On third-party platforms	**346,932**	**4.1**	449,249	5.4
Subtotal	**4,932,184**	**57.9**	3,710,418	44.5
Intellectual property operations and others(2)				
Intellectual property operations	**3,451,107**	**40.5**	4,423,104	53.0
Others	**142,410**	**1.6**	214,245	2.5
Subtotal	**3,593,517**	**42.1**	4,637,349	55.5
Total revenues	**8,525,701**	**100.0**	8,347,767	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 32.9% to RMB4,932.2 million for the year ended December 31, 2020 on a year-over-year basis, accounting for 57.9% of total revenues.

Revenues from online business on our self-owned platform products increased by 61.0% to RMB3,903.4 million for the year ended December 31, 2020, primarily driven by the expansion of distribution channels and users' growing willingness to pay for our reading content during the year under review.

Revenues from online business on our self-operated channels on Tencent products decreased by 18.4% to RMB681.8 million for the year ended December 31, 2020, mainly due to a further decline in paid reading revenues from our self-operated channels on certain Tencent products as the Company continued to expand free-to-read services.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues from online business on third-party platforms decreased by 22.8% to RMB346.9 million for the year ended December 31, 2020, primarily due to the decrease in revenues from certain third-party platform partners.

The following table summarizes our key operating data for the year ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**228.9 million**	219.7 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	**10.2 million**	9.8 million
Paying Ratio[(1)]	**4.5%**	4.5%
Monthly average revenue per paying user ("ARPU")[(2)]	**RMB34.7**	RMB25.3

Notes:

(1) Paying ratio is calculated as average MPUs divided by 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 4.2% year-over-year from 219.7 million to 228.9 million for the year ended December 31, 2020. A further breakdown of MAUs is as follows: i) MAUs on our self-owned platform products increased 1.7% year-over-year from 119.5 million to 121.5 million, primarily due to the expansion of distribution channels for our reading content; and ii) MAUs on our self-operated channels on Tencent products increased 7.2% year-over-year from 100.2 million to 107.4 million, as the expansion of free-to-read content distribution further drew more users to the channels.

- Average MPUs on our self-owned platform products and self-operated channels increased by 4.1% year-over-year from 9.8 million to 10.2 million for the year ended December 31, 2020. The increase was driven by the growing number of paying users on our self-owned platform products, partially offset by a decrease in paying users from our self-operated channels on certain Tencent products as more users were attracted to the free-to-read content on these Tencent products during the year.

- As a result of the closely matched increase in both MAUs and MPUs, the paying ratio remained stable at 4.5% for the year ended December 31, 2020.

- Monthly ARPU increased by 37.2% year-over-year from RMB25.3 to RMB34.7 for the year ended December 31, 2020, as a result of improvements in our content operations and recommendation system, and the expansion of content distribution channels during the year.

– Revenues from intellectual property operations and others decreased by 22.5% year-over-year to RMB3,593.5 million for the year ended December 31, 2020.

Revenues from intellectual property operations decreased by 22.0% year-over-year to RMB3,451.1 million for the year ended December 31, 2020. The decrease was primarily caused by the delayed production and release dates for films and TV and web series due to the COVID-19 pandemic in 2020.

Revenues from others decreased by 33.5% year-over-year to RMB142.4 million for the year ended December 31, 2020, primarily due to lower revenues generated from physical book sales.

Cost of revenues. Cost of revenues decreased by 7.8% year-over-year to RMB4,291.6 million for the year ended December 31, 2020, mainly due to the declined production costs of TV, web and animated series and films from RMB2,134.1 million to RMB1,111.9 million for the year ended December 31, 2020. These decreased costs were attributable to the delayed release of certain projects due to the adverse impact of the COVID-19 pandemic, which also led to a decrease in revenues. The decrease in cost of revenues was partially offset by an increase in platform distribution costs from RMB569.5 million to RMB1,194.4 million due to the expansion of our online reading channels and the improved operation of our online game in 2020, as accompanied with revenue increases.

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

	Year ended December 31,			
	2020		2019	
	RMB'000	**% of revenues**	RMB'000	% of revenues
Platform distribution costs	**1,194,357**	**14.0**	569,497	6.8
Content costs	**1,464,506**	**17.2**	1,477,077	17.7
Amortization of intangible assets	**175,706**	**2.1**	136,496	1.6
Production costs of TV, web and animated series and films	**1,111,884**	**13.0**	2,134,057	25.6
Cost of inventories	**94,617**	**1.1**	130,157	1.6
Others	**250,555**	**2.9**	208,460	2.5
Total cost of revenues	**4,291,625**	**50.3**	4,655,744	55.8

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 14.7% year-over-year to RMB4,234.1 million for the year ended December 31, 2020. Gross margin was 49.7% for the year ended December 31, 2020, as compared with 44.2% for the year ended December 31, 2019.

Interest income. Interest income decreased by 26.2% to RMB116.3 million for the year ended December 31, 2020, reflecting a lower average cash deposit balance for the year ended December 31, 2020.

Other (losses)/gains, net. We recorded net other losses of RMB5,322.9 million for the year ended December 31, 2020, compared with net other gains of RMB453.2 million for the year ended December 31, 2019. The other losses for the year ended December 31, 2020 consisted mainly of i) an impairment provision covering goodwill and trademark rights related to the acquisition of NCM of RMB4,015.9 million and RMB389.8 million, respectively, ii) a net fair value loss of RMB604.6 million due to the modification of NCM's earn-out mechanism in 2020, and iii) an impairment provision covering 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 20.5% year-over-year to RMB2,498.2 million for the year ended December 31, 2020, primarily driven by greater marketing expenses for our online reading content during the year. As a percentage of revenues, our selling and marketing expenses increased to 29.3% for the year ended December 31, 2020 from 24.8% for the year ended December 31, 2019.

General and administrative expenses. General and administrative expenses decreased by 13.5% year-over-year to RMB873.8 million for the year ended December 31, 2020, primarily attributable to a net reversal of compensation costs of RMB109.6 million related to the service expense of certain employees and former owners of NCM as the Company modified the earn-out mechanism for NCM in 2020. As a percentage of revenues, general and administrative expenses decreased to 10.2% for the year ended December 31, 2020 from 12.1% for the year ended December 31, 2019.

Net provision for impairment losses on financial assets. The impairment losses on financial assets reflected the provision for doubtful receivables. For the year ended December 31, 2020, the net provision for doubtful receivables was RMB130.2 million, mainly related to TV and film projects.

Operating (loss)/profit. As a result of the foregoing, we had an operating loss of RMB4,474.7 million for the year ended December 31, 2020, as compared with an operating profit of RMB1,193.9 million in the prior corresponding period.

Finance costs. Finance costs decreased by 60.2% year-over-year to RMB68.8 million for the year ended December 31, 2020. The decrease was mainly due to lower interest expenses incurred in the year 2020, in line with a decline in borrowings.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures declined by 97.0% to RMB4.7 million for the year ended December 31, 2020, primarily due to a fair value loss on financial liabilities of an investee company in the year of 2020.

Income tax benefit/(expense). Income tax benefit was RMB38.5 million for the year ended December 31, 2020, as compared with an income tax expense of RMB67.7 million for the year ended December 31, 2019. 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 were incurred in 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 RMB4,483.9 million for the year ended December 31, 2020, as compared with a profit attributable to equity holders of the Company of RMB1,096.0 million for the year ended December 31, 2019.

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 year ended December 31, 2020 and 2019:

	Year ended December 31, 2020		
	Online business RMB'000	**Intellectual property operations and others RMB'000**	**Total RMB'000**
Segment revenues	**4,932,184**	**3,593,517**	**8,525,701**
Cost of revenues	**2,354,619**	**1,937,006**	**4,291,625**
Gross profit	**2,577,565**	**1,656,511**	**4,234,076**
Gross margin	**52.3%**	**46.1%**	**49.7%**

	Year ended December 31, 2019		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
Segment revenues	3,710,418	4,637,349	8,347,767
Cost of revenues	1,600,610	3,055,134	4,655,744
Gross profit	2,109,808	1,582,215	3,692,023
Gross margin	56.9%	34.1%	44.2%

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
EBITDA(1)	**1,033,839**	841,660
Adjusted EBITDA(2)	**1,029,692**	1,247,324
Adjusted EBITDA margin(3)	**12.1%**	14.9%
Interest expense	**67,678**	171,322
Net cash(4)	**5,010,972**	5,139,316
Capital expenditures(5)	**288,309**	216,587

Notes:

(1) EBITDA consists of operating (loss)/profit for the year less interest income and other (losses)/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 year 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.

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Operating (loss)/profit	**(4,474,668)**	1,193,907
Adjustments:		
Interest income	**(116,315)**	(157,539)
Other losses/(gains), net	**5,322,903**	(453,194)
Depreciation of property, plant and equipment	**23,703**	22,306
Depreciation of right-of-use assets	**62,268**	61,451
Amortization of intangible assets	**215,948**	174,729
EBITDA	**1,033,839**	841,660
Adjustments:		
Share-based compensation	**120,204**	141,569
Expenditure related to acquisition	**(124,351)**	264,095
Adjusted EBITDA	**1,029,692**	1,247,324

Non-IFRS Financial Measures:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-IFRS financial measures, namely non-IFRS operating profit, non-IFRS operating margin, non-IFRS profit for the year, 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 annual results announcement 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. 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 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.

The following tables set out the reconciliations of our Group's non-IFRS financial measures for the year ended December 31, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31, 2020					
		Adjustments				
	As reported	Share-based compensation	Net loss from investments and acquisitions[1]	Amortization of intangible assets[2]	Tax effect	Non-IFRS
	(RMB' 000, unless specified)					
Operating (loss)/profit	**(4,474,668)**	**120,204**	**5,259,633**	**29,433**	**–**	**934,602**
(Loss)/profit for the year	**(4,500,197)**	**120,204**	**5,422,551**	**29,433**	**(171,214)**	**900,777**
(Loss)/profit attributable to equity holders of the Company	**(4,483,869)**	**120,204**	**5,422,551**	**29,433**	**(171,214)**	**917,105**
(Loss)/earnings per share (RMB per share)						
– basic	**(4.48)**					**0.92**
– diluted	**(4.49)**					**0.91**
Operating margin	**(52.5%)**					**11.0%**
Net margin	**(52.8%)**					**10.6%**

	Year ended December 31, 2019					
		Adjustments				
	As reported	Share-based compensation	Net (gain) from investments and acquisitions[1]	Amortization of intangible assets[2]	Tax effect	Non-IFRS
	(RMB' 000, unless specified)					
Operating profit	1,193,907	141,569	(133,715)	214,041	–	1,415,802
Profit for the year	1,112,134	141,569	(120,162)	214,041	(136,745)	1,210,837
Profit attributable to equity holders of the Company	1,095,953	141,569	(120,162)	213,990	(136,732)	1,194,618
EPS (RMB per share)						
– basic	1.10					1.20
– diluted	1.09					1.19
Operating margin	14.3%					17.0%
Net margin	13.3%					14.5%

Notes:

(1) Including impairment provision for goodwill, trademark rights and long-term investments related to certain investee companies, fair value changes arising from investee companies, fair value changes on consideration liabilities related to the acquisition of NCM and a net 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.

Capital Structure

The Company continued to maintain a sound financial position. Our total assets decreased from RMB26,250.0 million as of December 31, 2019 to RMB21,315.8 million as of December 31, 2020, while our total liabilities decreased from RMB6,839.2 million as of December 31, 2019 to RMB6,217.3 million as of December 31, 2020. The decrease in net assets was mainly due to the impairment of goodwill and trademark rights in relation to the NCM acquisition. The liabilities-to-assets ratio increased from 26.1% as of December 31, 2019 to 29.2% as of December 31, 2020.

As of December 31, 2020, the current ratio (the ratio of total current assets to total current liabilities) was 272.7%, compared with 206.1% as of December 31, 2019.

As of December 31, 2020, no receivables have been pledged, compared with 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 banks. As of December 31, 2020, our Group had net cash of RMB5,011.0 million, compared with RMB5,139.3 million as of December 31, 2019. The decrease in net cash in the year 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. For the year ended December 31, 2020, our Group had free cash flow of RMB764.1 million. This was a result of net cash flow generated from operating activities of RMB1,110.3 million, deducting payments for lease liabilities of RMB57.9 million and payments for capital expenditure of RMB288.3 million. Our bank balances and term deposits are primarily in RMB, USD and HKD. Our Group monitors capital on the basis of gearing ratio, which is calculated as debt divided by total equity. As of December 31, 2020:

- Our gearing ratio was 8.3%, compared with 6.7% as of December 31, 2019.
- Our total borrowings were RMB1,245.9 million, which were denominated in RMB and USD.
- Our unutilized banking facility was RMB1,666.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As of December 31, 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 for 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 year ended December 31, 2020 totalled RMB386.2 million, compared with RMB561.0 million for the year ended December 31, 2019, representing a year-over-year decrease of RMB174.8 million. The decrease was primarily due to reduced expenditure for investments in associates and joint ventures in 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.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in RMB, HKD, USD and SGD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the year ended December 31, 2020 and 2019.

Employee

As of December 31, 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.

Impact of COVID-19

In 2020, the outbreak of COVID-19 pandemic has certain impact on our operations and financial results. During the first quarter of 2020, the limitations on social and public gatherings have boosted our online user traffic and increased our online business revenue to some extent, but the increase was offset by the delays in the production and release of our film and television projects. As a result, we have recorded the impairment provision on the goodwill and trademark rights related to the acquired TV and film business partially due to the impact of COVID-19.

However, the Chinese government adopted several effective measures to curb spread of the outbreak. At the same time, the Group have closely monitored the latest development of COVID-19 so as to adopt proactive measures to overcome any challenges arising and to assess the related impact on an ongoing basis. For the whole year of 2020, COVID-19 did not have material adverse impact on the operation, financial condition and cash flows of the Group.

ACQUISITION OF NEW CLASSICS MEDIA AND ISSUE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

On October 31, 2018, the Company completed the acquisition of 100% of the equity interest in NCM which is primarily engaged in production and distribution of TV series, web series and films in the PRC. NCM, on a standalone basis, recorded RMB2,033.2 million in revenues and RMB429.4 million in profit attributable to equity holders of the company for the year ended December 31, 2020.

Adjustment of the New Earn Out Consideration under the New Earn Out Mechanism

Reference is made to:

i) the announcement of the Company dated August 27, 2020 and the circular of the Company dated November 10, 2020 (the "Circular") in respect of the entering into of the Supplemental SPA Deed in relation to, among others, the amendment of the 2018 NCM Share Purchase Agreement;

ii) the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 in respect of, among others, the acquisition of the entire equity interest of NCM, which was completed on October 31, 2018; and

iii) the announcements of the Company dated March 18, 2019 and March 17, 2020 in respect of, among others, the adjustment results under the Original Earn Out Mechanism for the year ended December 31, 2018 and 2019.

Capitalized terms in this sub-section shall have the same meaning as those defined in the Circular unless otherwise specified.

Taking into account of i) the profound adjustment in the television and film industry due to the fluid and changing macro and industry environment in the PRC after the completion of the Acquisition and ii) the adverse impact of the COVID-19 pandemic on NCM's production cycle for film and television projects for the year ended December 31, 2020, the Company carried out an impairment assessment of goodwill and trademark rights attributable to NCM. The Board is of the view that the recoverable amount of goodwill and trademark rights related to the acquisition of NCM was lower than their carrying amount, and thus the Group has made a non-cash impairment provision of RMB4,015.9 million for goodwill and RMB389.8 million for trademark rights, respectively. For further details of the impairment test for goodwill, see Note 17 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

In spite of a challenging time for the television and film industry due to the outbreak of COVID-19, NCM continued to maintain steady production of premium quality TV series and film projects. Taking such an environment into account, the Company believes that the benchmark profit for the year ended December 31, 2020 under the Original Earn Out Mechanism in the 2018 NCM Share Purchase Agreement is no longer commercially feasible nor reasonable and the Original Earn Out Mechanism should be adjusted, in order to better suit the current market conditions and long-term strategies of the Company.

Therefore, on August 27, 2020, the Company entered into a Supplemental SPA Deed with the Founder, the Founder SPV, Ms. Qu, the Qu SPV and the Executive SPV, in relation to, among other things, the amendment of the 2018 NCM Share Purchase Agreement with the New Earn Out Mechanism spreading the payments over four more years and setting the Reference Minimum Profit and the Reference Maximum Profit for the relevant New Earn Out Year taking into account current market and industry circumstances. The Supplemental SPA Deed was approved by the Shareholders on December 9, 2020 and took effect from December 11, 2020. As a result of the New Earn Out Mechanism, the Company recorded a net fair value loss on consideration liabilities of RMB604.6 million and a net reversal of compensation costs of RMB109.6 million in 2020.

The Board hereby announces that the actual Net Profit, as defined in the Circular and primarily excluding the impact of government subsidies for the year ended December 31, 2020, was RMB406.7 million, which is higher than the Reference Maximum Net Profit of RMB400 million. In accordance with the terms of the Supplemental SPA Deed, a total number of 3,023,963 Consideration Shares would be issued ("2020 Earn Out Issue") and a total cash consideration of RMB204.2 million would be paid to the Management Vendors.

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of the annual results announcement of the Company dated March 23, 2021 (the "Announcement") and immediately upon the completion of the 2020 Earn Out Issue:

	As of the date of the Announcement		Immediately upon the completion of the 2020 Earn Out Issue	
Shareholders	**Number of shares**	**Approximate % of issued Shares**	**Number of shares**	**Approximate % of issued Shares**
Tencent	601,126,564	59.18%	601,126,564	59.00%
Management Vendors				
– Founder SPV	25,020,482	2.46%	26,856,952	2.64%
– Qu SPV	11,258,413	1.11%	12,083,859	1.19%
– Executive SPV	4,691,527	0.46%	5,053,574	0.50%
Other Shareholders	373,684,730	36.79%	373,684,730	36.68%
Total	**1,015,781,716**	**100.00%**	**1,018,805,679**	**100.00%**

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out as follows:

DIRECTORS

Executive Directors

Mr. Cheng Wu

Aged 46, is an Executive Director and the Chief Executive Officer of the Company 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 also holds directorship in certain subsidiaries of the Company.

Mr. Cheng joined the Group on April 27, 2020. He is responsible for the overall strategic planning and business direction of the Company. Mr. Cheng has been serving as a Vice President of Tencent since March 2013 and as the chief executive officer of Shanghai Tencent Pictures and Culture Communication Co., Ltd. ("Tencent Pictures") since September 2015. He is responsible for strategic planning and day-to-day operation of Tencent Pictures, Shenzhen Tencent Animation and Comics Co., Ltd. and Tencent Esports. In addition, he is responsible for the management of Tencent's Marketing and Public Relations Department. Mr. Cheng is also as an executive director and vice chairman of Huayi Tencent Entertainment Company Limited (listed on the Stock Exchange under the stock code: 0419) and a non-executive director of Maoyan Entertainment (listed on the Stock Exchange under the stock code: 01896). Mr. Cheng graduated from Tsinghua University with a Bachelor of Science degree in Physics. He also gained an EMBA from the Olin Business School at Washington University.

Mr. Cheng currently holds positions in the following members of the Group:

- Cloudary as a director;
- Cloudary HK as a director;
- China Reading HK as a director;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- China Reading Co., Ltd. as an executive director;
- Shanghai Yueting as the chairman of the board of directors;
- Shanghai Yuechao as a chairman of the board of directors;
- Shanghai Yuewen as a chairman of the board of directors and manager;
- Shanghai Hongwen as the chairman of the board of directors;
- Shanghai Xuanting as an executive director;
- Shanghai Qiwen as an executive director and manager;
- Yuewen Film as an executive director;
- Hainan Yuewen Information Technology Co., Ltd. as an executive director;
- Beijing Yuewen Science and Technology Co., Ltd. as an executive director and manager;
- Tianjin Xuanting Information Technology Co., Ltd. as an executive director;
- Ningbo Yuewen Wenxing Investment Management Co., Ltd. as an executive director;
- Ningbo Xihe Investment Management Co., Ltd. as an executive director;

DIRECTORS AND SENIOR MANAGEMENT

- Tianjin Yuewen Film and Television Culture Communication Co., Ltd. as an executive director and manager;
- Shengyun Information Technology as the chairman of the board of directors;
- Yueting Information Technology (Tianjin) Co., Ltd. as an executive director;
- Yueting Information Technology (Hainan) Co., Ltd. as the chairman of the board of directors;
- New Classics Media Co., Ltd. as a director; and
- New Classics (Tianjin) Media Technology Co., Ltd. as a director.

Mr. Hou Xiaonan

Aged 41, is an Executive Director and the President of the Company appointed on April 27, 2020. He is a member of the Strategy and Investment Committee of the Company, and also holds directorship in certain subsidiaries of the Company.

Mr. Hou joined the Group on April 27, 2020. He is responsible for the overall strategic planning and business direction of the Company. Mr. Hou has been serving as the vice president of Platform and Content Group of Tencent since November 2018 and currently holds various management positions in Tencent, including Tencent Open Platform, Tencent YingYongBao, Tencent WeStart, Qingteng University and Tencent Content Library. He has extensive and in-depth management experience in product planning and operation, business model innovation, resource integration and ecosystem cooperation. Mr. Hou graduated from Beijing University of Aeronautics and Astronautics in 2003, majoring in computer science, and holds an EMBA degree.

Mr. Hou currently holds positions in the following members of the Group:

- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- Shanghai Yueting as a director and manager;
- Shanghai Yuechao as a director and manager;
- Shanghai Yuewen as a director;
- Shanghai Hongwen as a director and manager;
- Shanghai Xuanting as a manager;
- Shanghai Yuehuo Information Technology Co., Ltd. as an executive director and manager;
- Yuewen Film as a manager;
- Hainan Yuewen Information Technology Co., Ltd. as a manager;
- Tianjin Xuanting Information Technology Co., Ltd. as a manager;
- Shanghai Yuejian Information Technology Co., Ltd. as the chairman of the board of directors;
- Shenzhen Yuerong Information Technology Co., Ltd. as an executive director;
- Beijing Hongwenguan Publishing Planning Co., Ltd. as the chairman of the board of directors;
- Yueting Information Technology (Shanghai) Co., Ltd. Beijing Branch as a principal;

- Yueting Information Technology (Tianjin) Co., Ltd. as a manager;
- Yueting Information Technology (Hainan) Co., Ltd. as a vice-chairman of the board of directors;
- Shengyun Information Technology as a director and manager;
- Qisheng Culture Communication (Tianjin) Co., Ltd. as a manager;
- Tianjin Zhongzhi Bowen Book Co., Ltd. as a director and the chairman of the board of directors;
- Tianjin Huawen Tianxia Book Co., Ltd. as a director and the chairman of the board of directors;
- New Classics Media Corporation as a director; and
- New Classics (Tianjin) Media Technology Co., Ltd. as a director.

Non-Executive Directors

Mr. James Gordon Mitchell

Aged 47, is a Non-Executive Director and the Chairman of the Board since June 2017. He is the chairman of the Nomination Committee of the Company and a member of its Strategy and Investment Committee. Mr. Mitchell is a senior executive vice President and the chief strategy officer of Tencent Holdings, where he has worked since July 2011. He is also a director of certain other listed companies including Yixin Group Limited (listed on the Stock Exchange under the stock code: 02858) and Frontier Developments Plc (AIM: FDEV), NIO Inc. (listed on the New York Stock Exchange under symbol, NYSE: NIO) and Tencent Music Entertainment Group (listed on the New York Stock Exchange under symbol, NYSE: TME), and of several unlisted companies. Prior to joining Tencent, Mr. Mitchell was a managing director at Goldman Sachs. He is a CFA® and received a degree from Oxford University.

Mr. Wu Wenhui

Aged 42, is a Non-Executive Director and Vice-chairman of the Board appointed on April 27, 2020. He holds directorship in certain subsidiaries of the Company.

Mr. Wu was formerly a programmer at Founder Technology Group Co., Ltd. between July 2000 and October 2001, the chief executive officer of qidian.com and subsequently the president of Cloudary Corporation between October 2004 and March 2013, the chief executive officer of Tencent Literature between January 2014 and March 2015, and the executive director and co-chief executive officer of the Company between June 2017 and April 2020. Mr. Wu received his bachelor's degree in computer software engineering from Peking University.

Mr. Wu currently holds positions in the following members of the Group:

- Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. as an executive director and manager; and
- Webnovel Private Limited as a director.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cao Huayi

Aged 56, is a Non-Executive Director appointed on May 17, 2019 and also holds directorship in certain subsidiaries of the Company. He is the founding shareholder of Xinli (Tianjin) Media Technology Limited ("Xinli Media"). He has been the chairman of the board of directors of Xinli Media since 2007 and has served as the general manager of Xinli Media since 2013. Before the establishment of Xinli Media, Mr. Cao Huayi successively served as the general manager of Zhongsheng Chunqiu Film and Television Culture (Beijing) Co., Ltd. (中聖春秋影視文化(北京)有限公司) and the manager of Beijing Jiying Culture Company (北京集英文化公司). From 1986 to 1995, Mr. Cao served as a literary editor of Beijing Huayi Publishing House (北京華藝出版社). He graduated from the Department of Journalism at Fudan University and received a bachelor's degree of arts from Fudan University.

Mr. Cao currently holds positions in the following members of the Group:

- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited as a director;
- New Classics International Media Limited as a director;
- New Classics Media Group Limited as the chairman of the board of directors; and
- Xinli (Tianjin) Media Technology Co., Ltd. as the chairman of the board of directors.

Mr. Cheng Yun Ming Matthew

Aged 50, is a Non-Executive Director and a member of the Audit Committee of the Board appointed on 22 November 2019. He joined the Tencent Group in November 2010, and currently serves as the corporate vice president of the Tencent Group. Mr. Cheng also currently serves as a non-executive director of Fusion Bank Limited (富融銀行有限公司) since March 2019 and non-executive director of Tongcheng-Elong Holdings Limited (listed on the Stock Exchange under the stock code: 0780) since April 2020. Prior to joining the Tencent Group, Mr. Cheng worked at Price Waterhouse, an accounting firm currently known as PricewaterhouseCoopers, from 1992 to 1997, China Everbright Technology Limited (currently known as Citychamp Watch & Jewellery Group Limited) (listed on the Stock Exchange under the stock code: 0256), a company principally engaged in manufacturing of computer peripherals, from 1997 to 2000 and various companies assuming financial management functions. Mr. Cheng is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in October 1992.

Mr. Cheng currently holds positions in the following members of the Group:

- China Reading HK as a director; and
- Cloudary as a director.

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Aged 58, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee of the Company. Ms. Yu is responsible to provide independent opinion and judgment to the Board. She is an independent director of China Distance Education Holdings Limited (listed on the New York Stock Exchange under symbol, NYSE: DL). She held positions including director, company secretary and vice president for finance at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited) from December 2000 to January 2002, was the president and chief financial officer of Sohu.com Inc. between March 2004 and July 2016, and has been the chief executive officer of Virtues Holding Limited since February 2017. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University).

Ms. Leung Sau Ting Miranda

Aged 53, is an Independent Non-executive Director appointed on October 26, 2017. She is the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Ms. Leung is responsible to provide independent opinion and judgment to the Board. She was a trainee at the London office of Slaughter and May from September 1990 to September 1992, an associate in its Hong Kong and London offices from September 1992 to September 2001, and a partner of Slaughter and May between September 2001 and November 2016. Ms. Leung was also a director of the Lion Academy Trust from September 2015 to June 2019 and a director of CCBI Metdist Limited from November 2018 to November 2020. She has been a director of Indochina Starfish Foundation since July 2019 and a member of the with-profits committee of the board of Aviva Insurance UK since March 2020. Ms. Leung qualified as a solicitor in England & Wales in December 1992, and as a solicitor in Hong Kong in August 1993. She received her bachelor's degree in arts from Oxford University.

Mr. Liu Junmin

Aged 71, is an Independent Non-executive Director appointed on October 26, 2017. He is a member of the Nomination Committee of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He is also an independent non-executive director of Chinese People Holdings Company Limited (listed on the Stock Exchange under the stock code: 00681) and Tianjin Faw Xiali Automobile Co., Ltd. (listed on Shenzhen Stock Exchange under the stock code: 000927). He taught in Tianjin University of Finance and Economics, and served as a lecturer from September 1982 to December 1992. He has been teaching in the Department of Economics of Nankai University since December 1992, as an associate professor from December 1993 to December 1998, and as a professor since December 1998. Mr. Liu was an independent non-executive director of China Huarong Asset Management Co., Ltd. (listed on the Stock Exchange under the stock code: 02799) from June 2015 to October 2020.Mr. Liu graduated from Nankai University with a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctorate degree in economics in July 1994.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhang Rong

Aged 43, joined the Group in January 2014, and is a senior vice president of the Company. Mr. Zhang is primarily responsible for publishing, monthly subscriptions and team management. He was a product manager and assistant general manager at Tencent Technology (Shenzhen) Company Limited from June 2004 to January 2015, a senior vice president at Tencent Literature between January 2014 and March 2015, an executive director and manager of Tianjin Ruinuo Technology Co., Ltd. from June 2016 to September 2017, and a manager of Wangwen Xinyue which is a subsidiary of the Company. Mr. Zhang received his bachelor's degree in economic management from Shandong University of Finance and Economics.

Mr. Zhang currently serves as a director and manager of Tianjin Yuedu Network Technology Co., Limited, a member of the Group.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The principal activities of the Group include operating online literature platform, providing literary content and producing TV series and film. The activities of the principal subsidiaries are set out in Note 36 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of comprehensive (loss)/income on page 115 of this annual report.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2020 (2019: Nil).

BUSINESS REVIEW

The business review and performance analysis of the Group for the Reporting Period is set out in the section headed "Chairman's Statement" from pages 5 to 7 and "Management Discussion and Analysis" from pages 8 to 20 of this annual report.

MAJOR SUPPLIERS AND CUSTOMERS

Major Suppliers

For the year ended December 31, 2020, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

Major Customers

For the year ended December 31, 2020, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 31 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out on pages 118 to 119 in the consolidated statement of changes in equity and Note 32 and 39 to the consolidated financial statements.

REPORT OF DIRECTORS

DISTRIBUTABLE RESERVES

As of December 31, 2020, the Company's reserves available for distribution, amounted to approximately RMB12,897 million (as of December 31, 2019: RMB17,635 million).

DIVIDEND POLICY

The Board has adopted the Dividend Policy to set out the criteria based on which the Board may declare and pay dividends to the shareholders of the Company. Such declaration and payment of dividends shall remain to be determined at the absolute discretion of the Board and subject to all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the Companies Law of the Cayman Islands and the Articles of Association of the Company.

The Board may from time to time pay to the shareholders such interim dividends subject to the Companies Law of the Cayman Islands and the Articles of Association of the Company. Except in the case of interim dividends, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at an annual general meeting and must not exceed the amount recommended by the Board. Dividends may be distributed in the form of cash or shares subject to and in accordance with the Companies Law of the Cayman Islands and the Articles of Association of the Company. In proposing any dividend payment, the Board shall take into account the following criteria, including:

- the Group's actual and expected results of operations and cash flow and financial position;
- general business conditions and the Group's business strategies;
- distributable profit, retained earnings and/or distributable reserves of the Company and the members of the Group;
- the Group's expected working capital requirements and future expansion plans;
- the Group's indebtedness level and liquidity position;
- legal, regulatory and other contractual restrictions on the Group's declaration and payment of dividends; and
- other factors that the Board deems appropriate.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2020 are set out in Note 27 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are:

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

In accordance with Article 16.18 of the Articles of Association, Mr. Hou Xiaonan, Mr. Cao Huayi and Mr. Liu Junmin will retire at the AGM and, being eligible, will offer themselves for re-election as Directors at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders to be dispatched before the AGM.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 21 to 26 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent during the Reporting Period.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company 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 the executive Directors on April 27, 2020, and is subject to termination as provided in the service contract.

Each of Mr. James Gordon Mitchell, Mr. Cao Huayi and Mr. Cheng Yun Ming Matthew, as the non-executive Director, has entered into an appointment letter with the Company on October 19, 2017, May 17, 2019 and November 22, 2019, respectively, for an initial term of three years commencing from the date of their respective appointment letter, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter. Mr. Wu Wenhui, a non-executive Director, has entered into an appointment letter with the Company for an initial term of one year commencing from April 27, 2020.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on October 19, 2017 for an initial term of three years, subject to re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

REMUNERATION POLICY

A remuneration committee was set up for reviewing the Group's remuneration policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in Note 8 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 8 to the consolidated financial statements.

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 balance for proceeds as at December 31, 2020.

Intended use of net proceeds	Allocation of net proceeds	Amount of net proceeds utilized during the year ended December 31, 2020	Amount of net proceeds utilized up to December 31, 2020	Balance of net proceeds unutilized as at December 31, 2020	Intended timetable for use of the unutilized net proceeds
		(RMB in millions)			
(i) Expanding the Group's online reading business and sales and marketing activities	1,843.4	828.3	1,843.4	–	Not applicable
(ii) Expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles	1,843.4	491.9	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

All the net proceeds raised during our IPO have been utilized as of December 31, 2020.

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

As of December 31, 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	5,100,626	Long position	0.50
	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	40,849,378	Long position	4.02
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00
Mr. Cheng Wu	Beneficial owner	1,304,400	Long position	0.13
Mr. Hou Xiaonan	Beneficial owner	112,072	Long position	0.01

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

Name	Name of Associated Corporations	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in Associated Corporations (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	8,969,302[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	434,233[5]	0.00
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	291,561[6]	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	116,320[7]	0.00
Mr. Wu Wenhui[8]	Tencent Holdings Limited	Interest of controlled Corporations	300,000	0.00
Mr. Wu Wenhui[9]	Shanghai Hongwen	Interest of controlled corporation	3,462,000	34.62
Mr. Wu Wenhui[9]	Shanghai Yuewen	Interest of controlled corporation	3,462,000	34.62

REPORT OF DIRECTORS

Notes:

(1) The calculation is based on the total number of 1,015,781,716 Shares in issue as at December 31, 2020.

(2) As at December 31, 2020, Mr. Wu Wenhui held the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui was deemed to be interested in (i) the 5,100,626 Shares held by Grand Profits Worldwide Limited, and (ii) the derivatives held by Grand Profits Worldwide Limited, representing 9,485,220 underlying Shares.

(3) As at December 31, 2020, Mr. Cao Huayi was interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and was therefore deemed to be interested in the 34,230,324 Shares and 6,619,054 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement respectively.

(4) As at December 31, 2020, these interests comprised (i) 2,172,136 shares of Tencent, (ii) 55,396 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 6,741,770 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(5) As at December 31, 2020, these interests comprised (i) 340,237 shares of Tencent, (ii) 27,273 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award schemes of Tencent, and (iii) 66,723 shares underlying Tencent in respect of the options granted to Mr. Cheng Yun Ming Matthew under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(6) As at December 31, 2020, these interests comprised (i) 22,208 shares of Tencent, (ii) 7,215 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award schemes of Tencent, and (iii) 262,138 shares underlying Tencent in respect of the options granted to Mr. Cheng Wu under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(7) As at December 31, 2020, these interests comprised (i) 82,262 shares of Tencent, (ii) 25,683 shares underlying Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award schemes of Tencent, and (iii) 8,375 shares underlying Tencent in respect of the options granted to Mr. Hou Xiaonan under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(8) As at December 31, 2020, Mr. Wu Wenhui held the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui was deemed to be interested in the 300,000 shares of Tencent held by Grand Profits Worldwide Limited.

(9) As at December 31, 2020, each of Shanghai Hongwen and Shanghai Yuewen were owned as to 34.62% by Ningbo Meishan Yuebao, which in turn was held as to 83.88% by Mr. Wu Wenhui. Under the SFO, Shanghai Hongwen and Shanghai Yuewen are associated corporations of the Company.

Save as disclosed above, as of December 31, 2020, none of the Directors or 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 year ended December 31, 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.

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

As of December 31, 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 December 31, 2020.

(2) As at December 31, 2020, 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) 601,126,564 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 December 31, 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.

Eligible Participants

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

Maximum Numbers of Shares

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

Administration

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

Restricted Stock Units

Award of Restricted Stock Units

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

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 of 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 respectively.

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 respectively.

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 respectively.

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 respectively.

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

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

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2020	**15,214,100**
Granted	**1,574,360**
Forfeited	**(2,227,242)**
Vested	**(3,851,700)**
Outstanding balance as of December 31, 2020	**10,709,418**
As of January 1, 2019	17,477,000
Granted	5,690,000
Forfeited	(1,293,500)
Vested	(6,659,400)
Outstanding balance as of December 31, 2019	15,214,100

2020 RESTRICTED SHARE UNIT SCHEME

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

Purposes and Objectives

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

Scheme Limit

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

Administration

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

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

The Chairman shall have the sole and absolute right to, among others, determine the any grantee other than a Senior Grantee (the "Junior Grantee") who will be granted awards under the 2020 Restricted Share Unit Scheme, the terms and conditions on which awards are granted to Junior Grantees and when the awards granted to Junior Grantees pursuant to the 2020 Restricted Share Unit Scheme may vest. The committee comprising of any two executive Directors from time to time may (i) exercise the mandate granted by the Shareholders at general meetings of the Company and direct the Company to allot and issue Shares to the trustee to be held by the trustee to satisfy the RSUs upon vesting; and/or (ii) direct and procure the trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off market) to satisfy the RSUs upon vesting.

REPORT OF DIRECTORS

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

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

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

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

Name of Director	Date of Grant	Number of Shares underlying the RSUs Granted	Number of Shares underlying the RSUs Vested during the Year ended December 31, 2020	Vesting Period
Cheng Wu	September 1, 2020	224,144 Shares	–	September 1, 2021 – September 1, 2024
Hou Xiaonan	September 1, 2020	112,072 Shares	–	September 1, 2021 – September 1, 2024

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2020	**–**
Granted	**4,162,633**
Forfeited	**(258,705)**
Vested	**–**
Outstanding balance as of December 31, 2020	**3,903,928**

EQUITY-LINKED AGREEMENTS

Other than the RSU Plan, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended December 31, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the Reporting Period.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following connected transaction and continuing connected transactions during the year ended December 31, 2020:

Connected Transactions

1. Grant of RSUs to a Connected Person

On September 1, 2020, the Company granted a total of 224,144 RSUs to Mr. Cheng Wu, an executive Director and thus a connected person of the Company, pursuant to the 2020 Restricted Share Unit Scheme. For further details of the Grant of RSUs, please refer to the announcement of the Company dated September 1, 2020.

2. Amendment of 2018 NCM Share Purchase Agreement

On August 27, 2020, the Company entered into a supplemental SPA (the "Supplemental SPA Deed") deed with Mr. Huayi Cao (as non-executive Director and thus a connected person of the Company), C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited, pursuant to which the parties agreed to amend the terms of the 2018 NCM share purchase agreement. Under the Supplemental SPA Deed, among others, (i) the original earn out mechanism was revised; (ii) parties to the 2018 lock-up undertakings shall enter into the amendment deeds of lock-up undertaking to revise the terms thereunder; and (iii) parties to the 2018 deeds of non-competition shall enter into the amendment deeds of non-competition to revise the terms thereunder. On December 11 2020, the amendment of the 2018 NCM share purchase agreement under the Supplemental SPA Deed took effect. For further details of Supplemental SPA Deed, please refer to the announcements of the Company dated August 27, 2020 and December 10, 2020 and the circular of the Company dated November 10, 2020.

Non-exempt Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions (the "Continuing Connected Transactions") for the Company for the year ended December 31, 2020.

3. Promotion Cooperation Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a promotion cooperation framework agreement (the "Promotion Cooperation Framework Agreement") with Tencent Computer, a subsidiary of Tencent and thus a connected person of the Company, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall promote the Group's products or services on platforms of the Retained Tencent Group or third parties which are recognized by both parties. The means of the promotion services shall include, but not limited to provision of promotion services, provision of links to products, content or services of the Group, distribution of red packets (紅包), and optimization of search results. In return for the promotion services, the Group shall pay promotion services fees. The payment and settlements for the promotion service payable by the Retained Tencent Group should be calculated on (i) fixed amount of service fee; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The term of the Promotion Cooperation Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022. For further details of the Promotion Cooperation Framework Agreement, please refer to the announcements of the Company dated September 27, 2019.

The annual cap for the year ended December 31, 2020 is RMB250.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB150.4 million.

4. Payment Services Cooperation Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a payment services cooperation framework agreement (the "Payment Services Cooperation Framework Agreement") with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide the Group with payment services through its payment channels so as to enable the Group's users to conduct online transactions. In return for the payment services, the Group shall pay certain payment services commissions. The precise scope of service, commission fee rates, cooperation platform and settlement terms shall be agreed separately between the relevant parties in implementation agreements. The term of the Payment Services Cooperation Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022.

On April 27, 2020, the Board resolved to revise the annual caps under the 2020 Payment Services Cooperation Framework Agreement by entering into a 2020 amended and restated payment services cooperation framework agreement. For further details of the Payment Services Cooperation Framework Agreement, please refer to the announcements of the Company dated September 27, 2019 and April 27, 2020.

The annual cap for the year ended December 31, 2020 is RMB42.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB28.0 million.

5. Cloud Services and Technical Services Framework Agreement

On September 27, 2019, Shanghai Yueting (on behalf of the Group) entered into a cloud services and technical services framework agreement (the "Cloud Services and Technical Services Framework Agreement") with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall provide cloud services and other technical services to the Group for service fees. Cloud services and other technical services shall include: cloud services, technology and engineering group services and VIP domain name resolution service. In return for the cloud services and other technical services, the Group shall pay services fees. The precise scope of service, payment and settlement terms shall be agreed separately between the parties in implementation agreements. The term of the Cloud Services and Technical Services Framework Agreement shall commence from January 1, 2020 and expire on December 31, 2022. For further details of the Cloud Services and Technical Services Framework Agreement, please refer to the announcement of the Company dated September 27, 2019.

The annual cap for the year ended December 31, 2020 is RMB85.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB70.7 million.

6. Online Platform Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an online platform cooperation framework agreement (the "Online Platform Cooperation Framework Agreement") in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through our self-operated channels on the Retained Tencent Group platforms. In respect of literary works, we are the exclusive literary content provider to the Retained Tencent Group Platforms. The Retained Tencent Group shall provide the end users of the Retained Tencent Group platforms with access to the Group's authorized literary works so that they can preview the literary works or enjoy free or paid online reading services. The Group shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute the literary works of the Group through other channels. The Group shall have access to the data of back-end technology platforms of the relevant Retained Tencent Group platforms. In return, the Group shall share its revenue with the Retained Tencent Group for revenue of literary works generated through online platform cooperation. In respect of audio works operated by the Group, the Retained Tencent Group shall provide the end users of the Retained Tencent Group platforms (such Retained Tencent Group Platforms through which the Group distributes its audio works are authorized by the Retained Tencent Group to be self-operated by the Group) with access to the Group's audio works so that they can enjoy free or paid online listening services. The Group shall determine the operation and pricing strategies relating to the audio works. The Retained Tencent Group shall provide all necessary assistance.

The Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group. In return, the Group shall pay distribution fees to the Retained Tencent Group.

The term of the Online Platform Cooperation Framework Agreement shall commence on May 17, 2019, being the date of the Shareholders approving the Online Platform Cooperation Framework Agreement, and expire on December 31, 2021. For further details of the Online Platform Cooperation Framework Agreement, please refer to the announcement of the Company dated March 18, 2019 and the circular of the Company dated April 9, 2019.

(i) Annual caps in respect of literary works

We consider that it would be unsuitable to adopt monetary annual caps for the Online Platform Cooperation CCTs in relation to the literary works contemplated in the Online Platform Cooperation Framework Agreement. Therefore, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of setting monetary annual caps under Rule 14A.53(1) for the Online Platform Cooperation CCTs contemplated under the Online Platform Cooperation Framework Agreement. Please refer to the announcement of the Company dated March 18, 2019 for details on the wavier granted and further details of the Online Platform Cooperation CCTs.

The revenue arising out of the Online Platform Cooperation CCTs shall be split between the relevant parties and shall be determined in accordance with the following formula:

Net Proceeds of the Literary Work x prescribed revenue sharing percentage

Net Proceeds of the Literary Works (defined as below) shall refer to the aggregate net amount of deposits received from the users of the Retained Tencent Group Platforms that access the Group's literary works and the revenue of the advertisement generated from traffic attributable to these users after deduction of the platform commissions and certain operating expenses incurred for operation of and distribution by the Retained Tencent Group Platforms. The platform commission and operating expenses deducted represent the relevant proportion of expenses as charged by third party platforms (e.g. Apple and Android) when the users add value to their accounts using these platforms. These expenses represent a standard amount charged in respect of each third party platform. The amount to be shared by the Retained Tencent Group for each of the underlying cooperation under the Online Platform Cooperation Framework Agreement shall not exceed the Net Proceeds of the literary works received pursuant to the relevant cooperation in the distribution of the Group's literary works through the self-operated channels of the Group on Tencent platforms (the "Net Proceeds of the Literary Works") x 30%.

The prescribed revenue sharing percentage will depend on the Retained Tencent Group Platform through which the literary works is distributed and shall be determined after arm's length negotiation between the relevant parties and will in any event not exceed 30%.

For the year ended December 31, 2020, Net Proceeds of the Literary Work is RMB573.2 million. Seven transactions had been conducted with platforms including *Mobile QQ, QQ Browser, Tencent News, Weixin Reading, Tencent Comics, Tencent Sports* and *Tencent Video* under the Online Platform Cooperation Framework Agreement with the average revenue sharing percentage of 23.9%. The actual transaction amount of the Online Platform Cooperation CCTs is approximately RMB137.2 million for the year ended December 31, 2020.

As disclosed above, there are no annual caps under the Online Platform Cooperation Framework Agreement expressed in monetary terms, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB137.2 million.

(ii) Annual caps in respect of audio works operated by the Group

The distribution fees payable by the Group to the Retained Tencent Group in respect of the distribution of the audio works which are operated by the Group on the Retained Tencent Group's platform under the Online Platform Cooperation Framework Agreement for the year ended December 31, 2020 shall not exceed RMB12.3 million, while the actual amount for the year ended December 31, 2020 is RMB0.0 million.

7. IP Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into an IP cooperation framework agreement (the "IP Cooperation Framework Agreement") in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the products (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works. Forms of cooperation under the IP Cooperation Framework Agreement include adaptation by the Retained Tencent Group of our literary works into movies, television series, games, audio works, animations or comics, and licensing by us of the information network transmission rights of works (including but not limited to audio and comics works) and/or the derivative rights of the intellectual property of these works to the Retained Tencent Group. The relevant parties agree on the following fee terms pursuant to IP Cooperation Framework Agreement: (a) fixed payment from the licensee to the licensor; (b) revenue/profit sharing between the parties; and (c) a mix of the foregoing two commercial arrangements. The term of the IP Cooperation Framework Agreement shall commence on November 22, 2019, being the date of the Shareholders approving the IP Cooperation Framework Agreement, and expire on December 31, 2021.

On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) further agreed to revise the annual caps under the IP Cooperation Framework Agreement. For further details of the IP Cooperation Framework Agreement, please refer to the announcements of the Company dated March 18, 2019 and September 27, 2019 and the circular of the Company dated April 9, 2019.

The annual cap for the revenue of fees payable by the Retained Tencent Group to the Group under the IP Cooperation Framework Agreement for the year ended December 31, 2020 shall not exceed RMB1,300.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB538.6 million.

8. Advertisement Cooperation Framework Agreement

On March 18, 2019, Shanghai Yueting (on behalf of the Group) entered into an advertisement cooperation framework agreement (the "Advertisement Cooperation Framework Agreement") with Tencent Computer (on behalf of the Retained Tencent Group) in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the self-owned platforms and self-operated channels on Tencent products. The Retained Tencent Group shall share its revenue with the Group for revenue generated under the Advertisement Cooperation Framework Agreement. Payment and settlement terms under the Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Advertisement Cooperation Framework Agreement. The term of the Advertisement Cooperation Framework Agreement shall commence on May 17, 2019 and expire on December 31, 2021. For further details of the Advertisement Cooperation Framework Agreement, please refer to the announcement of the Company dated March 18, 2019 and the circular of the Company dated April 9, 2019.

The annual cap for the aggregate amount of the revenue generated under the Advertisement Cooperation Framework Agreement for the year ended December 31, 2020 is RMB754.6 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB382.7 million.

9. Novel Creation and Solicitation Cooperation Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) entered into a novel creation and solicitation cooperation agreement (the "Novel Creation and Solicitation Cooperation Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall cooperate with the Group on the following matters (i) the Group shall create novels in accordance with the requirements provided by the Retained Tencent Group; (ii) the Group shall organize novel writing competitions with or on behalf of the Retained Tencent Group, or (iii) other arrangements similar to the above cooperations. In return for the novel creation or solicitation, the Retained Tencent Group shall pay commissions in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties: (i) fixed fee, (ii) revenue/profit sharing, or (iii) the mixture of (i) and (ii). Payment and settlement terms under the Novel Creation and Solicitation Cooperation Agreement shall be specified in each of the implementation agreements under the Novel Creation and Solicitation Cooperation Agreement.

The term of the Novel Creation and Solicitation Cooperation Agreement shall commence on August 11, 2020 and expire on December 31, 2022. For further details of the Novel Creation and Solicitation Cooperation Agreement, please refer to the announcement of the Company dated August 11, 2020.

The annual cap for the year ended December 31, 2020 is RMB60.0 million, while the actual transaction amount for the year ended December 31, 2020 is RMB21.6 million.

10. Game Cooperation Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into a game cooperation agreement (the "Game Cooperation Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which (i) the Group shall have the right to license games, which are legally owned by or licensed to it, to the Retained Tencent Group for operations on the Retained Tencent Group's platforms on a non-exclusive basis, and the Group shall pay distribution fees to the Retained Tencent Group in return; and (ii) the Retained Tencent Group shall have the right to license games, which are legally owned by or licensed to it, to the Group for operations on the Group's platforms on a non-exclusive basis, and the Retained Tencent Group shall pay distribution fees to the Group in return. The distribution fees payable by the Group or the Retained Tencent Group (as the case may be) for the distribution of the Group's or the Retained Tencent Group's games to the other's platforms shall be calculated on (i) fixed amount of distribution fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). Payment and settlement terms under the Game Cooperation Agreement shall be specified in the each of the implementation agreements under the Game Cooperation Agreement.

The term of the Game Cooperation Agreement shall commence on March 20, 2018 and expire on December 31, 2020. As the Game Cooperation Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Game Cooperation Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Game Cooperation Agreement, please refer to the announcements of the Company dated March 20, 2018 and August 11, 2020.

The annual cap of (i) the distribution fee payable and/or revenue to be shared by the Group to the Retained Tencent Group for the year ended December 31, 2020 is RMB50.7 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB32.7 million; and (ii) the distribution fee payable and/or revenue to be shared by the Retained Tencent Group to the Group for the year ended December 31, 2020 is RMB3.6 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB0.0 million.

11. Virtual Services Purchase Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into a virtual services purchase agreement (the "Virtual Services Purchase Agreement") with Tencent Computer (on behalf of the Retained Tencent Group), pursuant to which the Retained Tencent Group shall purchase virtual services of the Group, which can be consumed on the Group's platforms to purchase the Group's services and products for marketing and promotional purposes. Payment and settlement terms under the Virtual Services Purchase Agreement shall be specified in each of the implementation agreements under the Virtual Services Purchase Agreement.

The term of the Virtual Services Purchase Agreement shall commence on March 20, 2018 and expire on December 31, 2020. As the Virtual Services Purchase Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Virtual Services Purchase Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Virtual Services Purchase Agreement, please refer to the announcements of the Company dated March 20, 2018 and August 11, 2020.

The annual cap for the year ended December 31, 2020 is RMB70.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB2.1 million.

12. Joint Investment Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into a joint investment agreement (the "Joint Investment Agreement") with Tencent Computer (on behalf of the retained Tencent Group), pursuant to which the Group has agreed to cooperate with the Retained Tencent Group (i) making joint investments in the production and distribution of movies and television series; (ii) making joint investments in the research and development of games, animations, comics and other products; and (iii) forming joint ventures or other joint arrangements (whether as a joint venture company, partnership or in any other form) for the purpose of the above joint investments. Payment and settlement terms under the Joint Investment Agreement shall be specified in each of the implementation agreements under the Joint Investment Agreement.

The term of the Joint Investment Agreement shall commence on March 20, 2018 and expire on December 31, 2020. As the Joint Investment Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Joint Investment Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Joint Investment Agreement, please refer to the announcements of the Company dated March 20, 2018 and August 11, 2020.

The annual cap for the year ended December 31, 2020 is RMB650.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB148.8 million.

13. Comprehensive Cooperation Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into a comprehensive cooperation agreement (the "Comprehensive Cooperation Agreement") with Sogou Technology (on behalf of the Sogou Group, a connected person) in relation to (i) game cooperation; (ii) online platform cooperation; and (iii) audio work licensing. The distribution fee payable by the Group and the Sogou Group for the game cooperation and the licensing fees payable by the Sogo Group for the online platform cooperation and the audio work licensing fees should be calculated on (i) fixed amount of licensing fees/distribution fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). The term of the Comprehensive Cooperation Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

On October 19, 2018, Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of its subsidiaries and entities controlled through contractual arrangement) entered into the Supplemental Agreement to amend the Comprehensive Cooperation Agreement, pursuant to which the parties agreed the scope of Sogou Group under the Comprehensive Cooperation Agreement will be extended to cover the Sogou Group, Sogou Technology, its subsidiaries and entities controlled through contractual arrangement.

As the Comprehensive Cooperation Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of the Sogou Group, a connected person) renewed the Comprehensive Cooperation Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Comprehensive Cooperation Agreement, please refer to the announcements of the Company dated March 20, 2018, October 19, 2018 and August 11, 2020.

The annual cap of (i) distribution fees payable or revenue/profit to be shared by the Group to the Sogou Group for the distribution of the Group's games on platforms of the Sogou Group in respect of the game cooperation for the year ended December 31, 2020 is RMB5.1 million, while the actual transaction amount for the year ended December 31, 2020 is RMB0.0 million; (ii) distribution fees payable or revenue/profit to be shared by the Sogou Group to the Group for the distribution of the Sogou Group's games on platforms of the Group in respect of the game cooperation for the year ended December 31, 2020 is RMB1.9 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB0.1 million; (iii) licensing fees payable or revenue/profit to be shared by the Sogou Group to the Group for the licensing of our literary work to the Sogou Group in respect of the online platform cooperation for the year ended December 31, 2020 is RMB150.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB13.1 million; and (iv) the licensing fee payable or revenue/profit to be shared by the Sogou Group to the Group for the licensing of audio work for the year ended December 31, 2020 is RMB2.5 million, while the actual transaction amount for the year ended December 31, 2020 is RMB0.0 million.

14. Distribution Framework Agreement

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a distribution framework agreement (the "Distribution Framework Agreement"), pursuant to which the Group has agreed to license information network transmission rights and the broadcast rights of the audiovisual works including television series, web series, films and animation to the Retained Tencent Group and the Retained Tencent Group shall pay licensing fees to the Group in return. The licensing fees payable by the Retained Tencent Group to the Group shall be calculated on (i) fixed amount of licensing fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The term of the Distribution Framework Agreement shall commence on October 19, 2018 and expire on December 31, 2020. As the Distribution Framework Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Distribution Framework Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Distribution Framework Agreement, please refer to the announcements of the Company dated August 13, 2018 and August 11, 2020 and the circulars of the Company dated September 28, 2018 and November 10, 2020.

The annual cap for the year ended December 31, 2020 is RMB2,300.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB481.9 million.

15. Media Production Consignment Agreement

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a media production consignment agreement (the "Media Production Consignment Agreement"), pursuant to which the Group has agreed to produce audiovisual works for the Retained Tencent Group and the Retained Tencent Group shall pay consideration to the Group for the production of these audiovisual works. The consideration payable by the Retained Tencent Group to the Group shall be calculated on (i) fixed amount of consideration; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The term of the Media Production Consignment Agreement shall commence on August 13, 2018 and expire on December 31, 2020. As the Media Production Consignment Agreement expired on December 31, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) renewed the Media Production Consignment Agreement for a further term of three years (from January 1, 2021 to December 31, 2023). For further details of the Media Production Consignment Agreement, please refer to the announcements of the Company dated August 13, 2018 and August 11, 2020.

The annual cap for the year ended December 31, 2020 is RMB150.0 million, while the actual transaction amount for the year ended December 31, 2020 is RMB0.0 million.

16. Cooperation Agreement

On October 19, 2018, Shanghai Yueting (on behalf of the Group) entered into a cooperation agreement (the "Cooperation Agreement") with Tianwen Kadokawa (on behalf of the Kadokawa Group, a connected person), pursuant to which the parties have agreed to, among other things, cooperate in (i) adaptation of literary work; (ii) physical books publication; and (iii) production and sales of peripheral products. The fees payable by the Kadokawa Group to the Group shall be calculated on (i) fixed fee; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). The term of the Cooperation Agreement shall commence on October 19, 2018 and expire on December 31, 2020. For further details of the Cooperation Agreement, please refer to the announcement of the Company dated October 19, 2018.

The annual cap for the year ended December 31, 2020 is RMB17.2 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB2.2 million.

17. Copyright License Framework Agreement

On August 11, 2020, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into a copyright license framework agreement (the "Copyright License Framework Agreement") in relation to the purchase of the adaptation rights and transmission rights of various works (including but not limited to games, literary works and comics) from the Retained Tencent Group. The Retained Tencent Group shall license the copyrights to the Group including but not limited to: (i) the adaptation rights of various work (including but not limited to games, literary works and comics) and the Group shall have the right to adapt such works to the comics, animations, films, television series and other products, and (ii) the transmission rights, including but not limited to (a) the information network transmission right of literary works, audio works, comics, and (b) the information network transmission right, the projection right and the broadcast right of the animations, films and television series. The relevant parties agree on the following fee terms pursuant to Copyright License Framework Agreement: (i) fixed fee; (ii) revenue/profit sharing; or (iii) the mixture of (i) and (ii). The term of the Copyright License Framework Agreement shall commence on August 11, 2020 and expire on December 31, 2022. For further details of the Copyright License Cooperation Framework Agreement, please refer to the announcement of the Company dated August 11, 2020.

As the Copyright License Agreement has covered the cooperation under (i) the literary, audio and comics work licensing agreement (the "Literary, Audio and Comics Work Licensing Agreement") dated March 20, 2018 and (ii) the copyright purchase agreement (the "Copyright Purchase Agreement") dated August 13, 2018, which were entered between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group), the Literary, Audio and Comics Work Licensing Agreement and the Copyright Purchase Agreement were terminated after the Copyright License Framework Agreement took effect.

The annual cap for the year ended December 31, 2020 is RMB65.0 million, while the actual transaction amount for the year ended December 31, 2020 is approximately RMB5.0 million.

Annual Review by the Independent Non-executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Continuing Connected Transactions outlined above, and confirmed that such Continuing Connected Transactions had been entered into:

(a) in the ordinary and usual course of business of our Group;

(b) on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 41 to 52 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor of the Company has performed agreed-upon procedures regarding the continuing connected transactions entered into by the Group during the year ended December 31, 2020 as set out above and states that:

(a) nothing has come to its attention that causes it to believe that the disclosed Continuing Connected Transactions have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) nothing has come to its attention that causes it to believe that such Continuing Connected Transactions have exceeded the annual caps as set by the Company.

Certain related party transactions as disclosed in Note 37 to the consolidated financial statements constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

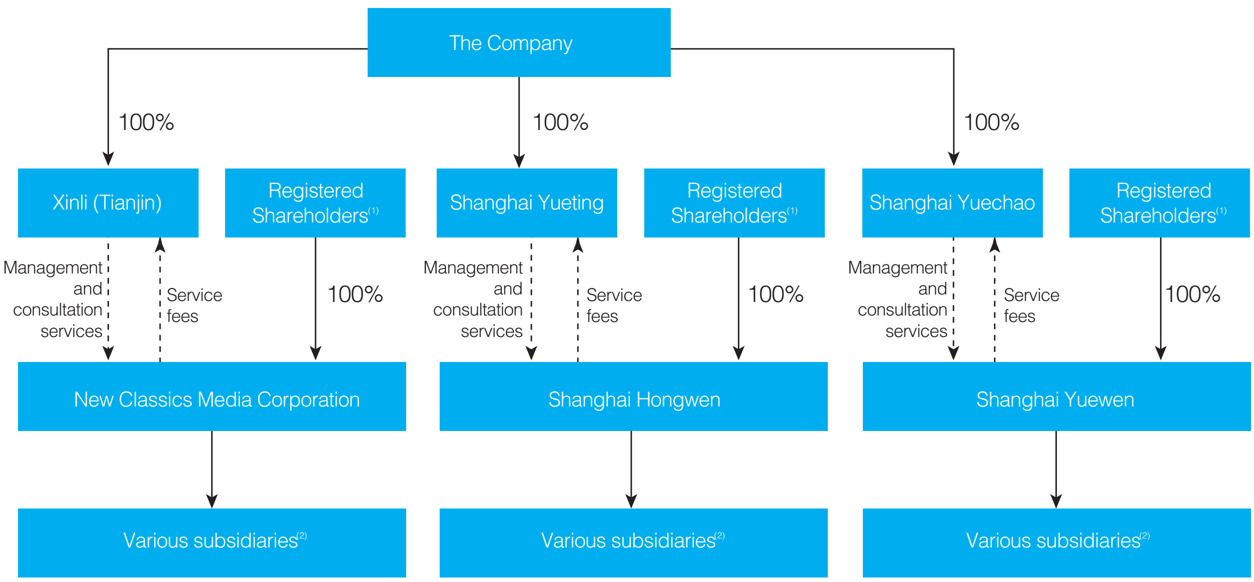
Save as disclosed in this annual report, during the year ended December 31, 2020, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

REPORT OF DIRECTORS

Contractual Arrangements

Our Company has entered into a series of Contractual Arrangements with the WFOEs and the PRC Holdcos, pursuant to which our Company obtained effective control over, and received all the economic benefits generated by, the businesses operated by (i) Shanghai Hongwen, Shanghai Yuewen and their respective subsidiaries (the "Wen VIE"); and (ii) New Classics Media Corporation (the "NCM VIE"). Accordingly, through the Contractual Arrangements, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



"→" denotes direct legal and beneficial ownership in the equity interest.

"-->" denotes contractual relationship.

"---" denotes the control by WFOE(s) over the Registered Shareholders and the PRC Holdco(s) through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdco(s), (2) exclusive options to acquire all or part of the equity interests in the PRC Holdco(s) and (3) equity pledges over the equity interests in the PRC Holdco(s).

Notes:

(1) In the case of the Wen VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao. Litong and Ningbo Meishan Yuebao hold 65.38% and 34.62% of the equity interests, respectively, in each of the PRC Holdcos. Litong is owned by Ms. Chen Fei (陳菲) as to 25%, Mr. Zhu Jinsong (朱勁松) as to 25%, Ms. Hu Min (胡敏) as to 25%, and Ms. Li Huimin (李慧敏) as to 25%, while Ningbo Meishan Yuebao is owned by Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Mr. Luo Li (羅立) as to 2.69%. In the case of the NCM VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, holding 40.0%, 6.7%, 34.0%, 15.3% and 4.1% of the equity interests, respectively in the PRC Holdco.

(2) These include certain investment vehicles which do not currently carry out any business operations but are intended for potential investment in businesses which are subject to foreign investment restrictions in accordance with the Catalog.

A brief description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the PRC Holdcos is set out as follows:

(a) Exclusive Business Cooperation Agreements

Each of the PRC Holder(s) entered into the Exclusive Business Cooperation Agreements with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their exclusive provider of technical support, consultation and other services, including the use of any relevant software legally owned by the WFOE(s); development, maintenance and updating of software in respect of the PRC Holdco(s)'(s) business; design, installation, daily management, maintenance and updating of network systems, hardware and database design; providing technical support and staff training services to relevant employees of the PRC Holdco(s); providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under PRC laws); providing business management consultation; providing marketing and promotional services; providing customer order management and customer services; transfer, leasing and disposal of equipment or properties; and other relevant services requested by the PRC Holdco(s) from time to time to the extent permitted under PRC laws. Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions and subject to any necessary adjustment by the WFOEs of the scope and amount of service fees according to the PRC tax laws and practices.

(b) Exclusive Option Agreements

Under the Exclusive Option Agreements entered into among the WFOE(s) and the PRC Holder(s), and the Contractual Arrangements Date, the WFOE(s) have thus the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred). The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the PRC Holdco(s) have been transferred to the WFOE(s) or their/its appointee(s).

REPORT OF DIRECTORS

(c) Equity Pledge Agreements

Under the Equity Pledge Agreements entered into between the WFOE(s), the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdco(s) that they own, including any interest or dividend paid for the Shares, to the WFOE(s) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the PRC Holdco(s) takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully paid.

(d) Powers of Attorney

The Registered Shareholders executed Powers of Attorney on the Contractual Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) and their/its designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdco(s). The Powers of Attorney shall remain effective for so long as each Registered Shareholder holds equity interest in the PRC Holdco(s).

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our PRC Holdco(s) and/or Consolidated Affiliated Entities during the year ended December 31, 2020. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2020.

For the year ended December 31, 2020, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2020, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries amounted to RMB7,955 million for the year ended December 31, 2020, representing an increase by 2.0% from RMB7,800 million for the year ended December 31, 2019. For the year ended December 31, 2020, the revenue of Shanghai Hongwen, Shanghai Yuewen and New Classics Media Corporation and their respective subsidiaries accounted for approximately 93.3% of the revenue for the year of our Group (2019: 93.4%).

Reasons for Adopting the Contractual Arrangements

Pursuant to the Administrative Measures of Foreign Investment Admission (Negative List) 2018 Revision (外商投資准入特別管理措施(負面清單)(2018年版)), foreign investments in the businesses of (i) production and operation of broadcasting and television programmes (including bringing-in of such programmes), film making, film distribution, film bringing-in and theatre are prohibited; and (ii) Internet publication, provision of audio-visual program services to the public, operation of online games and performing agency business are restricted. Since foreign investment in such business areas in which we currently operate are subject to restrictions or prohibitions under the current applicable PRC laws and regulations, as advised by our PRC legal advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. For details of the foreign investment restrictions or prohibitions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements – Qualification Requirements under the FITE Regulations" and "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment" on pages 195 to 197 and pages 210 to 215 of the Prospectus and on page 63 to 68 of the circular of the Company dated September 28, 2018 (the "Circular").

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, and that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interest of our Group and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and New Intergroup Agreements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders' approval requirements.

Risks Relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government finds that the agreements that establish the structure for operating the businesses in China do not comply with the applicable PRC laws and regulations, or if there are regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.

- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Holdcos or their shareholders may fail to perform their obligations under our Contractual Arrangements.

- We may lose the ability to use and enjoy assets held by our PRC Holdcos that are material to our business operations if our PRC Holdcos declare bankruptcy or become subject to a dissolution or liquidation proceeding.

- The ultimate shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.

- If we exercise the option to acquire equity ownership and assets of our PRC Holdcos, the ownership or asset transfer may subject us to certain limitations and substantial costs.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of the investment of our Shareholders.

Further details of these risks are set out in the section headed "Risk Factors – Risks relating to Our Contractual Arrangements" on pages 60 to 66 of the Prospectus.

Our Group has adopted measures to ensure the effective operation of our Group's businesses with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements, including:

(a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year; and

(c) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as four of the parties to the Contractual Arrangements, namely Litong, Ningbo Meishan Yuebao, Linzhi Tencent and Shiji Kaixuan, are connected persons. Litong, Linzhi Tencent and Shiji Kaixuan are accounted as subsidiaries of Tencent, and are therefore associates of Tencent. Ningbo Meishan Yuebao is owned as to 83.88% by Mr. Wu Wenhui, one of our Directors, and is therefore an associate of Mr. Wu Wenhui.

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (i) in the case of Wen VIE only, the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to, among others, the following conditions:

(a) no change without independent non-executive Directors' approval;

(b) no change without independent Shareholders' approval;

(c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

(d) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and

(e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

For further details of the waivers granted by the Stock Exchange, please refer to the Prospectus and the announcement of the Company dated September 24, 2018 and March 18, 2019.

Annual Review by the Independent Non-Executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(a) the transactions carried out during the year ended December 31, 2020 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(b) no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group; and

(c) the terms of any new contracts that had been entered into, renewed and/or reproduced between our Group and the Consolidated Affiliated Entities during the year ended December 31, 2020 are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

Our Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2020 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group.

REPORT OF DIRECTORS

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB2,184,838.

LEGAL PROCEEDINGS AND COMPLIANCE

To the best knowledge of the Board, no litigation or claim of material importance is pending or threatened against any member of the Group.

Compliance

The PRC government regulates the Internet industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the Internet industry. A number of regulatory authorities, such as the Ministry of Commerce, or MOFCOM, the Ministry of Culture, or MOC, the Ministry of Industry and Information Technology, or MIIT, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRFT and the Cyberspace Administration of China, or CAC, oversee different aspects of the Internet industry. These governmental authorities together promulgate and enforce laws and regulations that cover many aspects of the telecommunications, Internet information services, Internet publishing industries and online audio-visual products services, including entry into such industries, scope of permitted business activities, licenses and permits for various business activities and foreign investments into such industries.

Change of the PRC regulatory environment may have adverse impact on our business operation. In particular, substantial uncertainties exist with respect to the Foreign Investment Law, which was adopted at the Second Session of the 13th National People's Congress on March 15, 2019 and shall come into effect as of January 1, 2020 and how the Foreign Investment Law may impact the viability of our current corporate structure, corporate governance and business operations. We are closely monitoring the status of the enactment of the Foreign Investment Law, and will take necessary steps to mitigate the risks against us, if any.

For details please refer to the relevant disclosure in the section headed "Risk Factors" in the Prospectus.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office. The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The subsequent events after the Reporting Period are disclosed in Note 38 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee had, together with the Auditor, reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements during the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 62 to 84 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as of the date of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold the AGM on May 24, 2021. The register of members of the Company will be closed from Tuesday, May 18, 2021 to Monday, May 24, 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, May 17, 2021.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

AUDITOR

There was no change in the Company's auditor in the preceding three years. PricewaterhouseCoopers was appointed as the Auditor during the Reporting Period. The accompanying financial statements prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the AGM.

Sincerely,
James Gordon Mitchell
Chairman of the Board and non-executive director

Hong Kong, March 23, 2021

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2020 (the "Relevant Period").

The Board is committed to maintaining high standards of corporate governance and recognizes that good governance is vital for the long-term success and sustainability of the Company's business, and to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the Relevant Period.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities. The Company has made specific enquiries with the Directors and the Directors have confirmed they have complied with the Model Code for the Relevant Period.

THE BOARD

As at December 31, 2020, the Board comprises nine Directors, consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. The composition of the Board ensures a balance of skills and experience appropriate for the requirements of the business of the Group and the issuance of independent opinion. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

The Directors who held office during the year and up to the date of this annual report includes:

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

Each of the executive Director has entered into a service contract with the Company for a specific term of three years. Each of Mr. James Gordon Mitchell, Mr. Cao Huayi and Cheng Yun Ming Matthew, as the non-executive Directors, has entered into an appointment letter with the Company for a specific term of three years. Mr. Wu Wenhui, a non-executive Director, has entered into an appointment letter with the Company for a specific term of one year. Each of the independent non-executive Directors has entered into an appointment letter with the Company for a specific term of three years. In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment. The Board considers a candidate's experience, skill and knowledge and competency and ability to fulfil duty of care and diligence and fiduciary duty and/or recommendation by the nomination committee of the Company (if any).

In compliance with Rules 3.10 and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors (representing not less than one-third of the Board), one of whom possesses appropriate professional qualifications in accounting or related financial management expertise. Each of the three independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules.

Pursuant to the Articles of Association, (i) any Director appointed as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election; and (ii) at least one-third or, if the number is not a multiple of three, the nearest to one-third of the Directors are subject to retirement from office by rotation and re-election at the annual general meeting of the Company once every three years. Accordingly, Mr. Hou Xiaonan, Mr. Cao Huayi and Mr. Liu Junmin shall retire by rotation and, being eligible, will offer themselves for re-election as Directors at the AGM.

All Directors have given sufficient time and attention to the affairs of the Group and, in particular, the non-executive and independent non-executive Directors have provided the Board with their diversified expertise and professional advices. The Board is of the view that there is a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors in the Board and the independent non-executive Directors are able to provide sufficient checks and balances to safeguard the interests of the shareholders of the Company and the Group. The participation of the independent non-executive Directors in the Board and committee meetings also provides independent judgement on the issues relating to strategy, policy, performance, accountability, conflict of interest and standards of conduct.

CORPORATE GOVERNANCE REPORT

The Board members have timely access to information relating to the Group's business and will be provided with further documents and information upon request to enable them to make informed decisions. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors/Board Committee members. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors. All Directors are entitled to have access to Board papers and related materials. These papers and related materials are in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. Queries raised by the Directors are given a prompt and full response.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

As regards the code provision of the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity of the public companies or organizations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

DIRECTORS' LIABILITY INSURANCE AND INDEMNITY

The Company has arranged appropriate and sufficient liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

RESPONSIBILITY OF THE BOARD

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance and to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to executive Directors and the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

BOARD ACTIVITY

The Board holds meetings regularly and meets at other times as and when required to review the Group's overall strategies, financial and operational performances, approved the annual and interim results of the Group, risk management, regulatory compliance and corporate governance, and other significant matters. In addition, the Board holds general meetings to maintain an on-going dialogue with the Shareholders.

The Board held seven Board meetings in 2020. The attendance of each director at Board, committee meetings, annual general meeting and extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Board, Committee Meetings, Annual General Meeting and Extraordinary General Meeting						
Name of director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Strategy and Investment Committee	Annual General Meeting	Extraordinary General Meeting
Executive directors							
Mr. Cheng Wu *(appointed on April 27, 2020)*	4/7	N/A	N/A	1/5	1/1	1/1	1/1
Mr. Hou Xiaonan *(appointed on April 27, 2020)*	4/7	N/A	N/A	N/A	1/1	1/1	1/1
Mr. Liang Xiaodong *(resigned on April 27, 2020)*	2/7	N/A	N/A	N/A	0/1	0/1	0/1
Non-Executive directors							
Mr. James Gordon Mitchell	7/7	N/A	2/2	N/A	1/1	1/1	1/1
Mr. Wu Wenhui *(re-designated on April 27, 2020)*	7/7	N/A	N/A	4/5	1/1	1/1	1/1
Mr. Cao Huayi	7/7	N/A	N/A	N/A	N/A	1/1	1/1
Mr. Cheng Yun Ming Matthew	7/7	2/2	N/A	N/A	N/A	1/1	1/1
Ms. Chen Fei *(resigned on April 27, 2020)*	2/7	N/A	N/A	N/A	0/1	0/1	0/1
Independent Non-Executive directors							
Ms. Yu Chor Woon Carol	7/7	2/2	2/2	5/5	N/A	1/1	1/1
Ms. Leung Sau Ting Miranda	7/7	2/2	N/A	5/5	N/A	1/1	1/1
Mr. Liu Junmin	7/7	N/A	2/2	N/A	N/A	1/1	1/1

CORPORATE GOVERNANCE REPORT

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. The company secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. Notices of not less than fourteen days are given by the company secretary for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the relevant papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. When there is potential or actual conflict of interests involving a substantial shareholder or a director, such director will declare his interest and will abstain from voting on such matters. Minutes of meetings are kept by the joint company secretary with copies circulated to all Directors or Board Committee members for information and records.

The directors may also seek independent professional advice at the Company's expense in appropriate circumstances.

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are kept by company secretary and are available for inspection by Directors at any time.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on the latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

According to the information provided by the Directors, a summary of training received by the Directors throughout the Relevant Period is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Mr. Cheng Wu *(appointed on April 27, 2020)*	A, B and C
Mr. Hou Xiaonan *(appointed on April 27, 2020)*	A, B and C
Mr. Liang Xiaodong *(resigned on April 27, 2020)*	C
Non-Executive Directors	
Mr. James Gordon Mitchell	A, B and C
Mr. Wu Wenhui *(re-designated on April 27, 2020)*	C
Mr. Cao Huayi	C
Mr. Cheng Yun Ming Matthew	C
Ms. Chen Fei *(resigned on April 27, 2020)*	C
Independent Non-Executive Directors	
Ms. Yu Chor Woon Carol	C
Ms. Leung Sau Ting Miranda	C
Mr. Liu Junmin	C

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the Chief Executive Officer are currently two separate positions held by Mr. James Gordon Mitchell as the chairman of the Board and Mr. Cheng Wu as Chief Executive Officer, with clear distinction in responsibilities. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

DELEGATION BY THE BOARD

The Board reserves for its decision right for all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

1. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to formulate, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

4. to formulate and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

6. to review and monitor the Company's compliance with the Company's whistle-blowing policy.

BOARD COMMITTEES

The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee, to oversee the relevant aspects of the Company's affairs. The four Board committees are provided with sufficient resources to discharge their duties. The Audit Committee, the Remuneration Committee and the Nomination Committee have its written terms of reference, which are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors namely Ms. Yu Chor Woon Carol (Chairman) and Ms. Leung Sau Ting Miranda and one non-executive Director namely Mr. Cheng Yun Ming Matthew.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive directors, to discuss any area of concern during the audit or review.

The Audit Committee's major work during the year 2020 includes:

1. to review the 2019 annual report, the Environmental, Social and Governance Report and annual results announcement;

2. to review the 2020 interim report and interim results announcement;

3. to review compliance with the CG Code, the Listing Rules and relevant laws;

4. to review the relationship with the Auditor by reference to the work performed by the Auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the Auditor;

5. to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the Auditor before submission to the Board; and

6. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

PricewaterhouseCoopers ("PwC") is the Group's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied with this relationship. As such, the Audit Committee has recommended their re-appointment at the forthcoming AGM.

Code provision C3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e)(i) of the CG Code during the Relevant Period.

Terms of Reference of the Audit Committee was revised on December 3, 2018 according to the revision of the CG Code which took into effect from January 1, 2019.

The Audit Committee held two meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

Nomination Committee

The Nomination Committee currently comprises three members, including one non-executive Director namely Mr. James Gordon Mitchell (Chairman) and two independent non-executive Directors namely Ms. Yu Chor Woon Carol and Mr. Liu Junmin.

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee's major work during the year 2020 includes:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive; and

5. to review the Board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the board diversity policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Board has also implemented the nomination policy in relation to reviewing and assessing the Board composition, the Nomination Committee considers a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience. The Nomination Committee is satisfied that the board diversity policy and nomination policy are successfully implemented. The Nomination Committee held two meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

The Nomination Committee will continue to monitor the implementation of two policies and will review periodically to ensure its continued effectiveness.

Board Diversity Policy

The Board has adopted a Board Diversity Policy in relation to the nomination and appointment of new Directors, which provides that the selection of Board candidates shall be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience, with reference to the Company's business model and specific needs. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

Nomination Policy

The Board has adopted the Nomination Policy which aims to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirement of the Company's businesses. Pursuant to the Nomination Policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- Reputation for integrity;

- Accomplishment and experience in the relevant industries in which the Company's business is involved and other professional qualifications;

CORPORATE GOVERNANCE REPORT

- Willingness to devote adequate time to discharge duties as a member of the Board; and

- Diversity in aspects including but not limited to gender, age, cultural and educational background, professional experience, perspectives, skills, knowledge and length of services.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee identifies individuals suitably qualified to become board members, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of the proposed independent non-executive Directors as appropriate. The Nomination Committee makes recommendations to the Board. The Board considers the individuals recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and confirms the appointment of the individuals as Directors or recommends the individuals to stand for election at a general meeting. Individuals appointed by the Board will be subject to election by the Shareholders at the next following AGM or the next following general meeting in the case of filling a casual vacancy in accordance with the Articles of Association. Shareholders approve the election of individuals, who stand for election at general meeting, as Directors. The Nomination Committee also considers each retiring Director, having due regard to the Nomination Policy and the Board Diversity Policy, and assesses the independence of each retiring independent non-executive Director. The Nomination Committee makes recommendations to the Board. The Board considers each retiring Director recommended by the Nomination Committee, having due regard to the Nomination Policy and the Board Diversity Policy and recommends the retiring Directors to stand for re-appointment at the AGM in accordance with the Articles of Association. Shareholders approve the re-appointment of Directors at the AGM. The Board shall have the ultimate responsibility for all matters relating to selection and appointment of Directors. The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review it, as appropriate, to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice.

Terms of Reference of the Nomination Committee was revised on March 18, 2019 according to the revision of the CG Code which took into effect from January 1, 2019.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Ms. Leung Sau Ting Miranda (Chairman) and Ms. Yu Chor Woon Carol and one executive Director namely Mr. Cheng Wu.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive directors and senior management; and (iii) the remuneration of non-executive directors.

The Remuneration Committee's major work during the year 2020 includes:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board from time to time;

3. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. The Remuneration Committee held five meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

Strategy and Investment Committee

The Strategy and Investment Committee comprises four members, including two executive Directors namely Mr. Cheng Wu (Chairman) and Mr. Hou Xiaonan, and two non-executive Directors namely Mr. James Gordon Mitchell and Mr. Wu Wenhui.

The principal duties of the Strategy and Investment Committee are to review the execution of business plans and performance indicators of the Group and to review and advice on budget proposals. The Strategy and Investment Committee held one meeting during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Please refer to Note 8 to the consolidated financial statements for details of remuneration of members of the Board for the year ended December 31, 2020.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on pages 21 to 26 of this annual report, for the year ended December 31, 2020 are set out below:

Remuneration band (RMB)	**Number of individual**
0	4
1-5,000,000	6
>5,000,000	0

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2020 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 105 to 114 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the effective business operation, accuracy and the reliability of the financial reporting, as well as the compliance with applicable laws, regulations and policies.

The Board acknowledges that it is their responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates its responsibilities to the Audit Committee to review the establishment and practices of management with respect to risk management and internal control systems formally on a half-yearly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. The Board is also responsible for overseeing the key risks of the Company, including determining the Company's acceptable level of risk, and proactively considering, analyzing and formulating strategies to manage company's significant risks.

Under the supervision and guidance of the Board, the Company has adopted a risk management and internal control structure, referred to as the "Three Lines of Defense" model, to ensure the effectiveness of its risk management and internal control systems.

First Line of Defense – Operation and Management

Our First Line of Defense is mainly comprised of business and functional departments of the Group. It is responsible for the day-to-day operation and management as well as the implementation of risk management and internal control tasks.

Second Line of Defense – Risk Management

Our Second Line of Defense is comprised of the risk control team of the Risk Control and Internal Audit Department of the Group. It is responsible for the formulation of policies relating to risk management and internal control of the Group, as well as the overall planning and establishment of the risk management and internal control systems of the Group. It assists the First Line of Defense to establish and improve the risk management and internal control systems through the establishment of the China Literature Internal Control Team. And by performing the supervision function, it can reasonably ensure the effective implementation of risk management and internal control tasks in the First Line of Defense.

Third Line of Defense – Independent Assurance

Our Third Line of Defense is comprised of the internal audit team of the Risk Control and Internal Audit Department of the Group (including internal audit and anti-corruption functions). Through its internal audit functions, the internal audit team is responsible for the provision of independent evaluation and verification on the effectiveness of the risk management and internal control systems of the Group to assist the Board in performing risk management duties. The anti-corruption function is responsible for investigation work and promotional activities on anti-corruption.

CORPORATE GOVERNANCE REPORT

The Three Lines of Defense model of the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee oversees the management of the design, implementation and monitoring of risk management and internal control systems. The senior management team also provides all necessary and relevant data to the Board, giving the Directors sufficient explanation and information they need to discharge their responsibilities and make an informed assessment of financial and other data put before them for approval. The internal audit team of the Company has direct reporting lines to the Audit Committee.

Risk Management

The Company is committed to continuously improving its risk management system, including structure, process and culture, and its risk management ability, to ensure long-term growth and sustainable development of the Company's business.

The Company has established a risk management system which sets out the roles and responsibilities of each relevant party as well as the relevant risk management policies and processes. Various business and functional departments of the Company identify and assess on regular basis the risk factors that may negatively impact the achievement of its objectives, and formulates appropriate response measures. The Company also provides risk management and internal control training for staff on a regular basis.

As the Company's business scale, scope and complexity have evolved, so does its external environment, management considers that the company is stilling facing the five significant risks disclosed in 2019 through the risk management process detailed above. "Market Competition and Innovation Risk", "Regulatory and Compliance Risk", "Public Outbreak Risk" and "Crisis Management, Public Relations and Reputation Risk" have been increased while the other risks remain stable.

The Audit Committee assists the Board in supervising the overall risk status of the Company and evaluating the change in the nature and severity of the Company's major risks. The Audit Committee considers that the management of the Company has taken appropriate measures to address and manage the key risks which they are responsible for at a level acceptable to the Board.

Below is a summary of the significant risks of the Company along with the applicable response strategies. With the growth of business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

Market Competition and Innovation Risk

The Company faces competition in every aspect of our business, and particularly from other companies that provide online platform services for literary creation, consumption and distribution. We compete primarily with other online literature websites and mobile apps in China, with internet companies which offer internet media services, with social network service providers, with content providers that focus exclusively on a specific genre of content also featured by us, including our popular media accounts and physical book publishing companies, and with movie and television companies. The competition above may significantly increase the market price for literary content, which cause us to lose our existing or potential writers and readers, or our revenue from box office falls below expectation. Moreover, with the deep intervention of We media in the online literature industry, as well as user's increasing for innovation in products and services, how to attract new users and maintain our market share also pose major challenges to the Company.

The Company has improved market competitiveness by transformation and innovation the business model, including optimizing organizational structure of management and setting a 'troika' to enhance the ecological coordination with Tencent. The Company has also focused on the experience of writers and readers by keeping track of the development of writers in a timely manner, capturing changes of reading experience, pooling resources together to enhance the technological capabilities of products and improve the environment for technological innovations continuously, developing products to meet the expectation of market users constantly, encouraging writers to output more IPs which meet the expectations and interests of the readers through innovations of management, converting literary content into movies and TV series, animated pictures, audio products and games, and reinforcing cooperation with business partners to consolidate the Company's leading position in the industry.

Regulatory and Compliance Risk

Regulatory authorities in numerous jurisdictions have been developing more comprehensive and stringent regulations to regulate the internet industry and the movie and television industry, including obtaining and maintaining necessary licenses, approvals and permits relevant to applicable business. As the Company is continuously expanding its businesses in the PRC and overseas to more countries and jurisdictions, it is required to keep up and comply with the new applicable laws and regulations in different countries and jurisdictions, including but not limited to laws regulation relating to privacy and data protection, Intellectual Property, labour protection, foreign investment, international trade, antitrust and etc. In addition, development of various industries around the world may be impacted by regulatory uncertainties in different jurisdictions and uncertainties in international relations.

The Company has set up several professional departments and teams, as well as engaged external professional consultants to work closely with management of business groups to keep track on any changes in any relevant laws and regulations, so as to take appropriate responding actions or measures to ensure the Company is in compliance with applicable laws and regulations. In addition, the Company also exchanges view and information with relevant regulatory authorities on the market trends and the development of Internet industry

CORPORATE GOVERNANCE REPORT

Crisis Management, Public relations and Reputation Risk

Online literature business and the movie and TV industry are highly dependent on market recognition and reputation of writers and artists. With the increasing complex business forms, if the brand name of the Company is damaged for any reason or if the Company is unable to respond to negative information effectively (for example, the image and reputation of writers, artists or cooperative partners are adversely affected), the reputation of products and the brand image of the Company may be harmed, and in turn, the business and financial conditions and operating results of the Company will be affected.

In adherence to the principles of openness and transparency, the Company has communicated with the public in a timely manner and disclosed comprehensive and proper information. In response to crisis, the Company has established the corresponding emergency response mechanism, to follow up on the progression of crisis, assess risks, make prompt decisions and adjust its businesses to reduce the impact. The Company has set up a professional public relations department for crisis and public relations management to continuously improve its crisis management and public relations capabilities, with established emergency response and public relations management mechanisms and agencies are required to monitor the reputation of artists. The public relations department is attentive and continuously collects public opinions, analyses the relevant market information to enable management timely respond comprehensive and genuine information to the general public according to the Company's policy and procedures; and protect the Company's reputation.

Public Outbreak Risk

The company's business could be adversely affected by public outbreak, such as natural disasters, accident disasters, social security incidents, or public health emergency, including but not limited to COVID-19. The occurrence of an outbreak of public emergency could severely disrupt our business operations, even result in failure of normal operation, and adversely affect our business performance due to the damaged business environment.

In response to the COVID-19 outbreak, the company has activated the emergency response mechanisms in the business contingency plans, including the establishment of emergency working groups, formulation and release of emergency policies, and start emergency process. In the post-pandemic era, the Company's emergency response team continues to operate effectively, closely monitoring risks, keeping up with policy changes, and responding to both risks and policy changes in a timely and appropriate manner. For example, the Company provides mobile working solution plan and various functional support, to support the business group in responding to urgent needs through adjusting resource allocation and timely deployment of emergency measures to ensure employee safety and continued operations of the Company's business. The Company also performs emergency drills to improve business's capabilities in responding to emergencies.

Intellectual Property Protection Risk

Piracy is long-standing problem in China, particularly in the content industry. Many websites and mobile apps in China attract user traffic by making pirated content available for free and derive advertising revenues from such pirated content. Piracy in online literature and movie and television products undermines the paid reading model of the Company, affects the viewership of movie and television products, and may adversely and significantly affect core competency and success of the Company.

The Company has zero tolerance for piracy, and has formulated and kept optimizing control measures to reduce the risk possibility of piracy through anti-piracy technology, providing an interactive platform for writers and users and increasing content distribution channel. In addition, the Company has set up a number of professional departments and teams which are able to identify cases of infringement and collect evidence with other business departments of the Company in a timely manner for commencing litigation in the relevant jurisdictions on claims for the losses incurred and imposing punishment on unauthorized third parties. The Company has strengthened the cooperation with public security organ to severely crack down on pirated App. In addition, the Company has further strengthened the cooperation with National Copyright Administration and Copyright Society of China to promote the protection of digital rights.

Acquisition & Investment Management Risk

The Company strengthens the market competitiveness and improves profitability through acquiring or investing in other companies. With the expansion of investment scale in diverse fields, it is important for the Company to adopt robust procedures in the formulation of investment strategies and strong treasury management, both at the investment evaluation stage as well as the post-investment stage. Failure to promptly manage investment risks could hinder the realization of investment strategies and lead to probable financial loss of the Company.

The Company takes the management of investment risks seriously, and has, amongst other things, established a Strategy and Investment Committee under the Board, dedicated an investment team to identify investment opportunities, appointed finance, legal and other relevant professional teams to manage relevant risks and put in place the investment risk evaluation and approval process. The Company would further strengthen the due diligence over the investee companies, and keep track on changes in relevant laws and regulations; and take appropriate responding actions or measures to ensure the Company is in compliance with such applicable laws and regulations in the PRC and overseas. There is also a designated professional team that regularly reviews the Company's treasury position and, continuously expands its financing channels and capabilities to meet the needs from the Company's business operations as well as acquisitions. The Company has also designated finance, legal and other relevant professional teams to support and monitor the performance of the investee companies. These teams periodically analyze and review relevant operating and financial information of the investee companies to ensure that they continue to satisfy the Company's investment strategies. In addition, the Company has invested resources in IA and IC to empower investee companies, and to continuously support the management of its controlling subsidiaries in establishing more sound risk management and internal control systems.

Information Security Risk

Protecting user and customer data is the top priority of the Company. The Company continues to pay attention to regulatory requirements for privacy and data protection in various jurisdictions and is fully aware that any loss or leakage of sensitive information could have a negative impact on affected users and the Company's reputation, even lead to potential legal action against the Company.

The Company strongly believes that protecting user and customer data is the key prerequisite for delivering secured and high-quality products and user experience. As such, the Company is committed to protecting data privacy and security, and strives to provide the highest level of protection on such information and data. In this regard, the Company strictly complies with applicable laws and regulations, and has formulated policies and control measures to protect user data. Information security is ensured through effective management systems, encryption, access restrictions and controls, and the establishment of appropriate and effective management processes, and continuously improving the business continuity and disaster recovery management. In addition, the Company performs review periodically and engages independent specialists to review the Company's data protection practices and provides training programs to employees to enhance their awareness of information security.

Internal Control

Management of the Company is responsible for the design, implementation and maintenance of the effectiveness of internal control systems. The Board and the Audit Committee are responsible for monitoring and overseeing the performance of management over the internal control systems to ensure it is appropriate and effective.

The Company's internal control systems clearly define roles and responsibilities of each party as well as authorizations and approvals required for key actions of the Company. Policies and procedures are put in place for the key business processes. This information is also clearly conveyed to employees in practice and plays an important role in internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

Management Self-assessment

In order to further strengthen the accountability of the management team in the internal control systems of the Company and to assist in determining the effectiveness of such internal control systems, the management team of each business division conducts self-assessment and confirms the internal control status of the business division for which it is responsible. The internal audit team assists the management in preparing a self-assessment questionnaire according to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework, and guides the management of each business group to carry out the self-assessment. The internal audit team is also responsible for collecting and summarizing the results of self-assessment. The Chief Executive Officer and the President of the Company reviews this summarized self-assessment of each business division, assesses the general effectiveness of the internal control systems of the Company, and submits the written confirmation thereof on behalf of the management of the Company to the Audit Committee and the Board.

In addition, the internal audit team supervises the establishment of the risk management and internal control systems set up by the management, monitors that the management has implemented appropriate measures, assesses objectively the effectiveness of risk management and internal control systems of the Company and reports to the Audit Committee at least on an annual basis.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with various business and functional management teams, internal audit team, legal, personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Board is of the view that throughout the year ended December 31, 2020, the risk management and internal control systems of the Company are effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended December 31, 2020 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit and audit related services	10,003
Non-audit services*	1,292
Total	11,295

Note:

* The amount of non-audit services comprises risk management, internal control review and tax advisory service.

JOINT COMPANY SECRETARIES

Ms. Xu Lan ("Ms. Xu") and Ms. Cheng Pui Yan ("Ms. Cheng") are the joint company secretary of the Company. All directors have access to the advice and services of the joint company secretaries on board procedures and corporate governance matters as and when required. The joint company secretaries are employees of the Company and report to the chairman of the Board and chief executive officer of the Company. Ms. Xu works closely with Ms. Cheng (the primary contact person) in discharging their duties and responsibilities as joint company secretaries of the Company.

For the year ended December 31, 2020, Ms. Xu and Ms. Cheng have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGM to answer Shareholders' questions. The Auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at http://ir.yuewen.com/, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as of the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretaries of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Block 6, No. 690 Bi Bo Road, Pudong XinQu, Shanghai, People's Republic of China (email address: ir@yuewen.com).

AMENDMENT TO CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2020, the Company has adopted its amended and restated memorandum of association and articles of association on June 30, 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT US

As a leading platform of original digital reading and literature intellectual property ("IP") cultivation in China, the Group has embraced quite a few popular brands in the sector, including QQ Reading, Qidian.com, New Classics Media, etc., reaching hundreds of millions of users. A large number of quality online literature IP have been produced through the platform and then adapted into cartoons, films and TV dramas, games and other commercial products.

Our vision is to create the largest cultural and creative enterprise in China. We continue to offer authors with diversified original platforms, open up extensive distribution channels for content and create exquisite multi-derivatives in the downstream to provide users with a variety of spiritual and cultural products. We have built a cultural and creative ecology driven dually by online business and IP operation, and is moving towards a "stronger ecology of literary content".

OVERVIEW

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2020. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance", etc. on the Company website.

SCOPE OF THIS REPORT

This report aims to represent our management measures and practices in terms of product responsibilities, environmental protection, employee care, supply chain management, operations in compliance and community investment in 2020. We will focus on ESG issues that are of interest to stakeholders.

This report involves China Literature and its subsidiaries for the period from 1 January 2020 to 31 December 2020. Compared with the *ESG Report 2019* issued on 27 April 2020, there is no significant adjustment in the scope of this report.

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It has complied with all the "mandatory disclosure" and "comply or explain" provisions and has included explanations for disclosure provisions which are not applicable to us.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PRINCIPLES

This report follows the Reporting Principles in the *ESG Reporting Guide*.

"**Materiality**": Significant stakeholders are identified, and stakeholder communication and materiality assessment are included in the preparation of the Report as evidence for the determination of material ESG issues.

"**Quantitative**": All the data in this report come from relevant statistical reports and official corporate documents. Meanwhile, relevant standards and methodologies used in calculating emissions/energy consumption are reported.

"**Balance**": This report follows the principle of balance and objectively presents the ESG status of the Group.

"**Consistency**": The methodology used for statistics disclosure of key performance indicators (KPIs) in this report is consistent with that used for *ESG Report 2019*.

ESG STRATEGIES

As a leading online literature platform, we are fully aware that the improvement of environmental and social performance can have a material impact on the sustainability of our operations. We have integrated the ESG related risks and opportunities into our corporate operation strategy as guidance on daily business operations.

We have established the ESG management framework consisting of the Board of Directors (the "Board"), the senior management and the working group. To support the Company's commitment to fulfil corporate social responsibility, the Board oversees, evaluates, prioritises and manages material ESG issues; formulates relevant management policies, strategies, priorities and objectives; reviews the Company's performance regularly and approves annual ESG reports. The senior management reports relevant risks and opportunities to the Board, and ensures the effectiveness of the ESG risk management and the internal control systems. And the working group is responsible for implementing the strategies and policies of the Board, conducting related management and reporting work and reporting to the senior management on the progress of the work.

After discussions with the management and combined with the stakeholder communication result and the actual operations, we confirm the following ESG issues that have material impact on us and will discuss our actions on a case-by-case basis in this report:

1. Product responsibilities

- Provide quality and healthy works
- Promote protection of IP rights
- Cultivate excellent creators
- Protect users' rights, interests and privacy

2. Workplace

- Focus on occupational health and safety
- Create favourable working environment
- Provide training and development opportunities

3. Anti-corruption

- Uphold operations in compliance with laws and regulations and abide by business ethics

4. Supply chain management

- Regulate procurement activities to reduce environmental and social risks in the supply chain

5. Community investment

- Engage in public welfare activities to improve positive social benefits

6. Environmental protection

- Practice green operation, protect the environment and conserve resources

We embrace the principle of sustainability, provide employees with favourable working environment, contribute to the society, and uphold development principle of integrity and regulatory compliance. We have established internal response mechanism to assess our ESG performances as our key business performance indicators.

STAKEHOLDER COMMUNICATION

Our key stakeholders include shareholders and investors, regulators, industry associations, partners, customers, employees, suppliers and community. We emphasize on stakeholder communication and have multiple effective communication channels to understand their expectations and needs on its ESG performance, which serve as important reference when developing our ESG strategy.

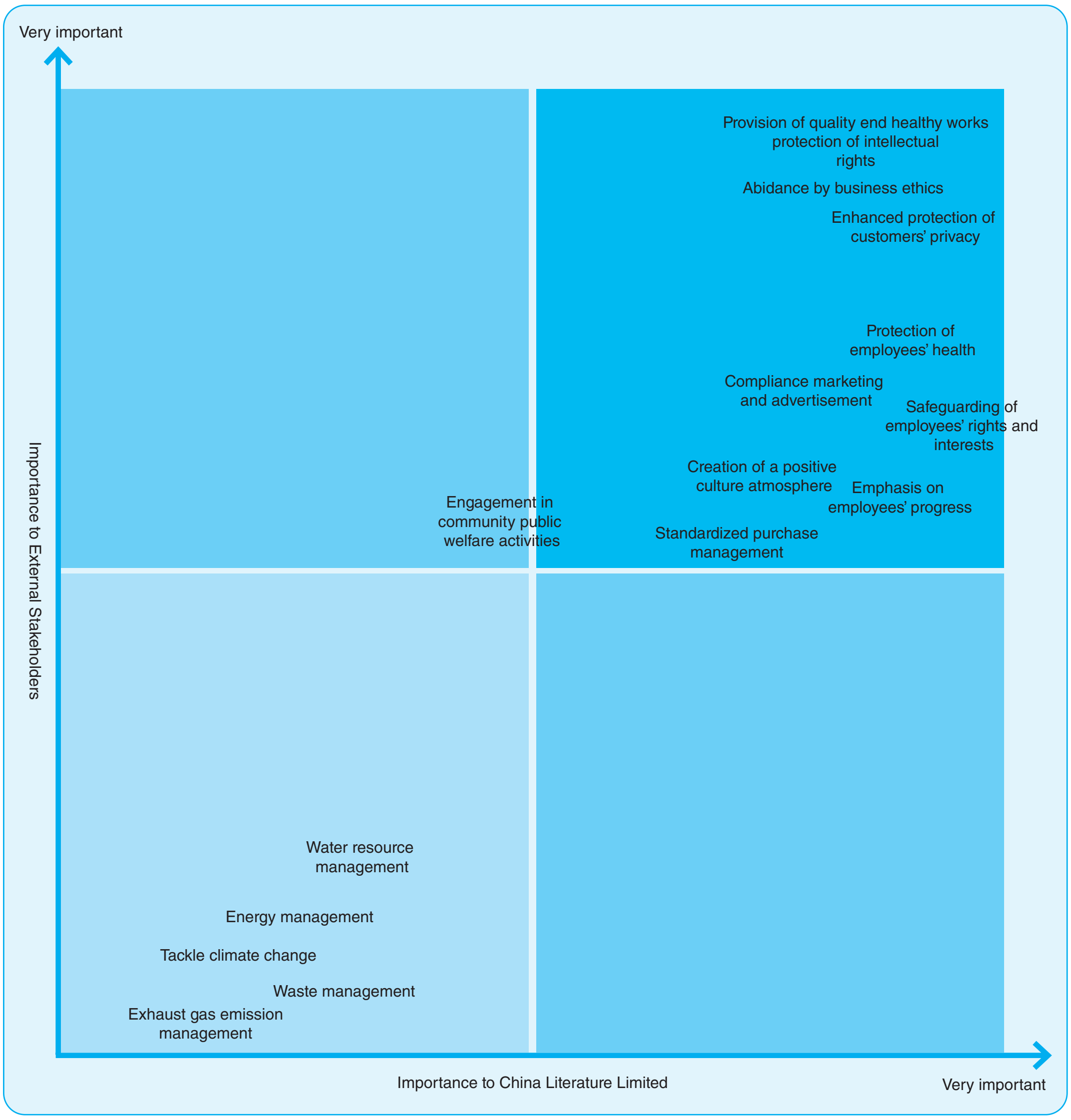
Stakeholders	Issues concerned	Major communication channels
Shareholders and investors	Abidance by business ethics Investment returns	Corporate announcements Official website Regular meetings Investors' meetings
Regulators	Creation of a positive culture atmosphere Abidance by business ethics Compliance marketing and advertisement	Policy consulting Regulator training Official visits Information disclosure
Industry associations	Protection of intellectual rights Creation of a positive culture atmosphere	Seminars On-site investigation Industry activities
Partners	Protection of intellectual rights Provision of quality and healthy works	Daily communication Online platforms Regular meetings
Customers	Provision of quality and healthy works Enhanced protection of customers' privacy	Customer service hotline Online customer service Customer satisfaction survey Social media
Employees	Safeguarding of employees' rights and interests Protection of employees' health Emphasis on employees' progress	Employee training Annual meeting Performance evaluation Team building
Suppliers	Standardized purchase management Abidance by business ethics	Regular meetings Tendering process Strategy cooperation On-site investigation
Community	Creation of a positive culture atmosphere Engagement in community public welfare activities Environmental protection	Social media Public welfare activities

Our ESG strategy requires the participation of all of our product platforms and employees, and support from the industry and society. We will continue to place more emphasis on the role of ESG strategy in the Company's development, encourage all stakeholders to participate and supervise the implementation of our ESG strategy.

MATERIALITY ASSESSMENT

Based on the requirements of the compliance guidelines and the operating situation, we identified 16 ESG issues in 2019 and determined the materiality of each issue in consideration of stakeholders' opinions. The materiality assessment results were finally confirmed through the management evaluation and review.

In 2020, the management reviews and discusses the materiality assessment result of 2019. As there was no significant changes in the business and operating environment, the results of 2019 is still applicable to us:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 PRODUCT RESPONSIBILITIES

We comply with the *Copyright Law of the People's Republic of China, Regulation on Internet Information Service, Law of the People's Republic of China on the Protection of Consumer Rights, Advertising Law of the People's Republic of China, Interim Measures for the Administration of Internet Advertising, Cybersecurity Law of the People's Republic of China* and other applicable laws and regulations on IP rights, content review, compliance marketing, advertising management, consumer rights and interests protection and privacy protection, and fully implement product responsibilities and legal obligations of the Company.

PROVIDE QUALITY WORKS

To maintain the qualified, healthy and positive information and content of our product lines, prevent and eliminate the publication of unhealthy information including information that violates national laws, regulations or morality, vulgar information, or information that plagiarizes or infringes on copyright, we integrated internal resources and set up the Content Department in 2020. Meanwhile, the standards and procedures of content review were updated and improved. In addition, we ensure the authenticity of all content published through advertising, marketing, etc., and prevent misrepresentation and excessive rendering, and strictly abide by relevant laws and regulations.

The content review team from Content Department regularly participates in the online literature editing business training and continuing education organized by the Cyberspace Administration of China and the Administration of Press and Publication to improve the content management level and strictly control the quality of the platform works. At the same time, the team has been paying attention to the changes in the requirements of the regulatory authorities to create a healthy network environment. We require writers to have a strong sense of social responsibility and create works in line with mainstream socialism values, so we have informed writers of such requirements through relevant writing instructions.

We carry out content review through both manual review and auto control. We implement the editor-in-chief responsibility policy, appointing the editor-in-chief as the person responsible for content scrutiny review. For all of our websites, our editors must edit and preview some chapters before putting the works on the websites, and strictly control the quality of the works. In 2020, we increased our investment in the research and development of China Literature Smart Risk Control System. Based on the existing natural language processing technologies, such as text semantic analysis and intent recognition, we carried out research and development on the model of short text identification to further enhance the generalisation capability of the system in identifying illegitimate content. At the same time, we actively organised various internal trainings about content safety to elevate the professional skill of team.

In order to provide healthy reading content to adolescents, we launched the teenager mode, under which the search and recommendation features were optimised. High-quality books which are suitable for young readers were selected, some purchase functions were restricted, and modules related with games and some advertisements were blocked under teenager mode.

In 2020, the National Library and China Literature joint hands to establish a strategic base of internet information preservation, 100 pieces of works were selected from our production and stored permanently by the National Library. In the same year, in a variety of assessments by the General Administration of Press and Publication, China Writers' Association and its local branches, the Publicity Department of the CPC Central Committee, and the Administration of Press and Publication, 98 of our works and derivatives won important awards and supports.

New Classics Media has formulated clear and effective process and mechanism in the screening of TV drama and film scripts, and acts upon regulatory requirements in the course of the script preparation, rough clipping and review. At the same time, New Classics Media continues to explore policy orientation and social development, and uphold the mainstream values in the political, economic and social dimensions. While creating realistic works to portray the real life, it has strived to provide quality works through innovative approaches. Sticking to the people-centred ideal and realism, New Classics Media advocates works of "ordinary people, strong enthusiasm, positive attitude" to ensure that the production, investment and publishment of works are on a healthy track. In 2020, New Classics Media participated in various industry seminars which focused on hot issues and discussed the development trend with other participants, in order to promote the sustainable and healthy development of the industry and give support to work resumption. Moreover, New Classics Media actively participated in the creation of "China-style Blockbuster" with the co-production of "My People, My Homeland (我和我的家鄉)" and "The Sacrifice (金剛川)", expressing the patriotism of the public.

PROMOTE PROTECTION OF IP RIGHTS

As a copyrighted digital reading platform and original online literature incubator that pioneers the industry, we stress the importance of the protection of IP rights.

We have established a dedicated IP team that is responsible for the internal management of copyright and combating copyright infringement. We have also established a litigation and right protection team to combat piracy and infringement of copyrights, so as to prevent interests of the Company and writers from being violated.

We have adopted an "Integrated Copyright" management mode to enforce our copyright development and protection, which enables us to manage the otherwise fragmented work such as copyright achievement and license in systematic data-processing way, thus improving online literature copyright management efficiency and providing online writers and partners with timely and professional legal support and comprehensive copyright services. In daily work, we continue to optimize scheme of the monitoring in real-time of piracy, through sending complaints letters and so on, to wipe out infringement and piracy in a simple and fast manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We actively participate in public affairs and events related to copyrights protection, including participating in copyrights protection seminars, contributing to establishment of industry standards, promotional activities of the World Intellectual Property Day and the release of "Copyright Alliance (正版聯盟)". We called on the whole society to pay attention to and jointly advocate the legalisation of online literature copyright protection in cooperation with associations of writers. In 2020, in collaboration with the Written Copyright Working Committee of the Copyright Society of China and relevant enterprises, we made joint proposal of "Reading Times: Written Copyright Protection in Action" to call on all copyright platforms to strengthen coordination and communication. We also actively explored and established clear-directed, distinct-standardised, and well-regulated copyright protection model for jointly promoting the healthy and orderly development of the digital contents industry.

Our IP rights protection work has also been highly recognized by the national judicial authorities and government departments. In 2020, several cases of IP right protection that we handled were selected in the "Top Ten Cases for National Combating Infringement and Piracy in 2019 (2019年度全國打擊侵權盜版十大案件)", the "Typical Cases of Judicial Protection for the Intellectual Property Right of Culture and Creativity Industry in Shanghai Pilot Free Trade Zone (上海自貿區文創產業知產司法保護典型案例)", the "Top Ten Typical Cases of Judicial Protection for the Intellectual Property Right in Jiangsu Courts (江蘇法院知識產權司法保護十大典型案例)", etc.

New Classics Media also specified the protection measures and usage guidelines of IP rights such as trademark rights and copyrights, and issued a legal statement on its official website, prohibiting any usage of relevant content and works of New Classics Media in any form without its written permission. Its legal department also scrutinizes copyright documents to ensure that the works are free of infringement risks. New Classics Media also carries out anti-piracy measures before, during, and after the release of works through automatic monitoring, manual intervention, and resource reporting, and protects copyrights of films and TV serials using technical methods such as blocking pirated links, feature codes and keywords.

IMPROVEMENT OF CREATORS' BENEFITS

We are fully aware that authors are the most valuable partners. We are determined to build the "Writer Ecology 2.0 (作家生態2.0)" in self-growth, self-improvement and self-motivation, create a service-oriented and connected platform comprehensively, to provide the personalized needs of writers with the whole chain service and continuously upgrade the service experience of writers.

In adherence to the principles of equal cooperation, mutual benefit and win-win result, we maintain extensive and efficient communication with writers through various channels, such as talkfests, calls, and online platforms to have their voices and opinions heard. In order to meet practical cooperative demands from writers in a wide range and different works, we have continuously raised the criteria of serving writers, provided diversified and optional manners in the field of cooperative agreements and editing services, so as to ensure that writers enjoy the freedom of choice and creativity in different subjects. We are striving to create diversified and productive ecology for creators in different writing characteristics and working with writers to promote the prosperity and development of online literature.

In order to increase the welfare and income for our writers, we launch a "Star Project of Professional Writers (職業作家星計劃)" covering writer cultivation, writer care, brand operation and other fields. In addition to incentives for literary creation, we leave sufficient time to writers for literature exploration, stimulating a writer's enthusiasm of creation. We provide writers who want to improve their personal and work influence with service such as platform resources, fans operation, exclusive copyright brokers, media & promotion of writers, to cater to the writers' needs. Moreover, we donate to launch a "Special Fund of Love Relief by China Literature (閱文愛心救助專項基金)", with a maximum relief fund of RMB300,000. This fund is designed to offer the most effective help to a writer who is caught in trouble due to serious illness or accidents. The objects of assistance include not only the author himself, but also the writer's direct relatives, including spouse, children and parents.

CULTIVATE EXCELLENT CREATORS

We have established robust and comprehensive training system for veteran, intermediate and novice writers, continue to enhance communication between writers and editors and solve writers' pain point, to empower them for their growth.

In 2020, we set up China Literature Qidian Academy ("the Academy"), and engaged famous online writers and film & television scriptwriters as tutors of the college, to provide creative writers and build energetic talents to the content industry continuously. The College provided writers an all-round, multi-levelled and evolutionary training system. Besides the online learning platform and community offered a systematic course configuration and communication space for writers, we build up the offline "Professional Writer Training Camp (職業作家訓練營)" that meets to self-enhancement-oriented potential writers, whose courses included Theory on Commercial Writing of Online Literature, Writing and Technology of Online Literature, Fans Operation of Online Literature, Professional Qualities for Online Writer and Cases Study. In addition, we launched a "Young Writer Support Plan (青年作家扶持計劃)" to assist young writers in promotion and development from main four fields link creation incentives, writing competition, honour rank and traffic support.

By the end of 2020, a total of 175 of our writers have joined China Writers Association. In addition, in the assessment by the Publicity Department of the CPC Central Committee and other institutions in 2020, 11 of our writers won key awards.

Composers are the most important resources for New Classics Media. New Classics Media not only cooperates with art masters, but also invests in young directors and scriptwriters, in an effort to produce various artistic works, forming a diversified art style.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

RESPOND TO USERS' FEEDBACKS

We are devoted to keeping the ecological environment of the platform health. To be specific, we have introduced a Polaris Real-time Risk Control Platform to automatically screen and filter the undesirable and noxious information. In addition, we intervene misconducts of users, including but not limited to malicious registration, fake comments, cheating and fraud, conduct credit evaluation on users' behaviour, and make blacklists or whitelists. We also welcome users to provide feedbacks on bad information and work with us to maintain the healthy and positive content of our major websites. Users can report bad information through the complaints hotline (010-59357051), the complaints page (https://jubao.yuewen.com/) and the complaints portal of the function pages. We will respond to the users' complaints in a timely manner, review and properly resolve all of them, moreover, reply on the resolving results will be sent to the users via SMS or system push.

We place great emphasis on every complaint and suggestion from our users. To better respond, we have set up a set of complaint handling mechanism where front-line employee is responsible for understanding the situation and preliminary handling, second-line employee is responsible for identifying and resolving the issue, and call-back employee is responsible for customer satisfaction survey and follow-ups. For major grievances, we engage relevant departments of the Company to conduct investigation and make a summary based on the result for the purpose of improving internal procedures and deterring similar incidents from occurring.

While quickly responding to users' demands, we regularly check and analyse the quality of customer service process and effect in daily work, so as to improve service standard and quality, and realize service enhancement. We conduct targeted training for the senior management, middle-level and front-line employees in daily work, summarize users' feedback in a timely manner, continuously raise employees' awareness of company policies through training, improve employees' business skills, and ensure efficient communication and proper solution of various issues in operation.

PROTECT INFORMATION SECURITY

Our main products have passed the national assessment on classified protection of information security. We have formulated a relevant contingency plan focusing on organizational system, precaution & early warning, emergency response, subsequent treatment and contingent support to practically prevent and handle network emergencies. By doing this, we further enhanced ability and standard to prevent and control network emergencies and minimise the harm and impact of such emergencies.

To protect the privacy of users' personal information is one of basic principles. We incorporate applicable legal and regulatory requirements on privacy protection into our internal compliance policies. We do our utmost to protect the users' personal information through reasonable and effective information security technology and management process. In all aspects of product or service development, we integrate legal, product, design and other factors into the concept of privacy protection, implement hierarchical internal control, and protect user's information of all aspects in the process of information collection, transmission, storage, demonstration and retrieval.

To ensure that our users understand how we protect their personal information, we publish our privacy protection policies in a concise and clear language on our product websites and in-app products; make clear to users the purpose, means and scope to collect and use personal information; remind our users to read privacy policy and other related rules by using clear reminders, such as popup. We are also very concerned about the information protection of underage users and call on guardians and schools to make the right guidance and work with us to create a safe and healthy online environment for minors.

To effectively fulfil the latest regulatory requirements for data security of the Cyberspace Administration of China, we clarified requirements on protecting users' personal privacy and sensitive data in relevant systems, implemented encryption process to encrypt users' information in all network interaction scenarios, and standardized and optimized the user account cancellation process by virtue of self-service or customer service to safeguard personal information and important data.

2 WORKPLACE

OCCUPATIONAL HEALTH AND SAFETY

In strict compliance with all applicable laws and regulations on safety and health including the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases*, we encourage healthy work style, strive to provide a comfortable working environment for our employees and ensure their mental and physical health and safety. In 2020, there was no work-related fatalities among our employees.

There are well-established security and fire prevention systems at workplace. In addition, we make efforts to ameliorate working environment and conduct regular disinfection and cleaning. During the outbreak of COVID-19 in 2020, we made epidemic prevention rule, guiding the unified control of administration, individual protection and medical procedure. Moreover, we distributed epidemic prevention products, publicised epidemic prevention knowledge from time to time in order to strengthen the epidemic prevention awareness and safeguard our employees.

We arrange annual medical checkups for employees and organize a range of fitness sessions such as traditional Chinese health therapy, neck and shoulder massage and psychological stress relief, etc. We made an all-covered, professional and specific employee assistance programme in 2020 to keep our employees sound in body and mind, for example, launching the "Wenxin Inn" programme, opening physiological/psychological hotline, building decompression chambers in Shanghai and Beijing offices, and providing diversified online/offline activities. Such activities offered our employees with health care in body and mind and strengthened employees' awareness of healthy life and work style. What's more, we equipped the Company with AED medical equipment to rescue patients with sudden cardiac death, trained special personnel to operate it, and made it accessible for the public.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to the set safety policies during filming, New Classics Media set up safety officers for fire prevention, public security and filming safety, and assigned on-site professional medical staff. At the same time, New Classics Media educated crew members on safety before filming, strengthened the awareness of "ensuring safety for production and ensuring safety in production", required relevant personnel to sign safety commitments, and purchased personal accident insurance for crew members. In 2020, New Classics Media required all staffs in preparatory group and film crew to live in concentrated area for closed management, and regularly checked sources of purchased goods to ensure the safety of devices, water and food. All film crew must take nucleic acid testing and sign the letter of responsibility to minimise the losses and damage caused by epidemic.

RECRUITMENT

Our employment practice complies with the *Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Provisions on Prohibition of Child Labor* and other applicable laws and regulations (including but not limited to those which prohibit child and forced labor). We verify the education background, job experience and professional background of the candidates to ensure that we hire suitable candidate in accordance with the job requirements. We uphold the principle of equality during the recruitment process and do not discriminate on the grounds of gender, age, nationality, ethnicity, religious belief, sexual orientation or family status, etc.

In 2020, we were rated "2020 Top Human Resources Management Awards" by 51job.com, a "2020 Maimai Annual Employer Award-Popular Employers in East China" from mainmai.cn, and were awarded as "2020 Top 20 Employers in New-Generation Youth Impact" by ciweishixi.com and "Eyas Training Camp in Pudong District" by Shanghai Municipal Human Resources and Social Security Bureau of Pudong New Area.

COMPENSATION

We offer competitive compensation benefits to attract and retain talent. The bonus is performance-based and ensured to reward employees with high performance.

BENEFITS

We offer commercial health and accident insurance to employees apart from basic social insurance.

We show our care for the well-being of our employees by various means. For example, we offer various welfare subsidies, festival gifts or bonus; celebrate special occasions of our employees (e.g. wedding, childbirth, birthday, etc.); carry out employee activities (e.g. festival activities, tabloid sports activities, team building activities and family day activities); set up various associations (e.g. basketball association, football association, badminton association, photographic association, fitness club, etc.); provide annual medical check-ups and accident insurance for parents of employees that serve for more than 3 years, and so forth.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

WORKING HOURS AND HOLIDAYS

We comply with all related laws & regulations on working hours and holidays, and hope that employees can strike a good work-life balance. We maintain a leave scheme that allows them to enjoy statutory leaves and holidays including annual leave, marriage leave, funeral leave, maternity leave, paternity leave, sick leave, etc. Employees are also entitled to extra annual leave that accrues based on length of service. In addition, employees must be compensated or given days-off for overtime work after internal approval.

PROMOTION

Advocating the principle of "Progressive promotion based on employee application depending on practice areas", employees may apply for promotion, if they satisfy the requirements. The promotion review process is fair, open and transparent and our employees will receive feedbacks and opinions. To cater to different development needs, we set up management and expertise career channels with robust career path.

EMPLOYEE DEPARTURE

We handle employee departure (whether by resignation or dismissal) strictly in accordance with labor contracts and applicable laws and regulations. We arrange an exit interview with each of the departing employees to understand the reasons for his/her departure and welcome any suggestions for improvement of the Company.

EMPLOYEE TRAINING

Improvement of employee competency is key to safeguarding the achievement of enterprise development. We put premium on employee training and have invested adequate resources and energy to create various internal and external training opportunities. Employees are encouraged to involve in these trainings taking their actual needs into consideration.

We established China Literature Academy which upholds the slogan of "Learning to be a better self". We engage a wide array of external experts on one hand and build in-house trainer team on the other hand, so as to offer different work and life training programs catering to needs of employees at each stage of career:

Induction training: to acquaint employees with rules, regulations and corporate culture of the Company, we provide induction training for every new employee. In particular, we adopt mentorship for fresh graduates, enabling them to quickly adapt to the Company's culture and working environment with the help of the experienced employees and managers assigned as career mentor.

Specialized training: according to the professional capacity of each employee, we set up the "Full-time Master Club (全職高手俱樂部)" with related committee, which is responsible for specialized training development plan and innovation, organizing professional trainings and attaching importance on the career development of professionals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General training: to enhance employee competency in an all-round manner, we arrange "Du Lala's Promotion Plan (杜拉拉升職「計」)", a workplace skillset training to help them obtain the general skills that facilitate their job performing.

Management training: we arrange management training to enhance employees' management skills. We set up "Middle-level Leader Voyage (中將遠航)" Project focused on "Nine Tactics of Civil Leader (文將九訣)" leadership model, incorporated courses such as visits to benchmark enterprises and action learning design, and pointed out the guiding light of management's leadership.

During the epidemic in 2020, China Literature School at first time launched a series of fight epidemic e-learning courses themed on "cooperation (協作戰)" "skill enhancement (加油站)" and "team (團隊戰)" to improve the homeworking efficiency. 2020 is the fifth year since the establishment of China Literature School, we held the "Aha Moment" learning open day for the fifth anniversary of China Literature School. In this day, we distributed small gifts, issued instructor certificates, held working experience sharing meeting and other activities to motivate the work enthusiasm of employees, enhance communication among employees in various departments and improve the quality and efficiency of internal knowledge sharing.

New Classics Media also conducts diversified training programs based on the industry's unique market competition and knowledge development model, including new employee training to introduce the organizational structure and corporate culture to new employees; inviting the professional leader of each business sector to conduct internal training, sharing experience in project planning, production, and distribution; external training of personal skills such as enforcement, leadership, and communication skills for employees at different ranks; arranging outstanding personnel to attend professional qualification training of industry associations, etc.

3 ANTI-CORRUPTION

We implement the strictest laws and ethical standard throughout the operation and comply with the *Anti-Unfair Competition Law of the People's Republic of China, the Company Law of the People's Republic of China* and other applicable laws and regulations combating bribery, extortion, fraud and money laundering, and adopt an attitude of zero tolerance in relation to corruption in any form.

We forge a risk control framework and set three lines of defence. If any fraud, corruption or bribery or other illegal conducts, which are regarded as red lines, are spotted, the employee found and proven to have committed such activity shall be subject to immediate dismissal. In the event that the activity violates any relevant laws or regulations and meets the standard of case filing, the employee shall be transferred to the judicial department. In 2020, we carried out a series of trainings about anti-corruption. enriched anti-corruption training framework for all employees, and emphasized risk control system, red line terms & contents and employee reporting system. In addition, we renewed and detailed the code of conduct for red line in such aspects as applicable range, management responsibility, penalty terms and behaviour instructions.

We also maintain a high level of integrity and professional ethics during the cooperation with our suppliers, and entered into the "Statement against Commercial Bribery (《反商業賄賂行為的聲明》)" with them. We will immediately terminate the cooperation with them in case of any breach. We provide multiple whistleblowing channels and how we should deal with such concerns. We also encourage employees to lodge reports on any suspected breach of the red line and secure the complete confidentiality of reported content and the identity of the whistleblowers. When a report is received or any activity in breach of the red line is detected, the risk control and internal audit department will conduct independent investigation immediately. After completing the investigation, the result will be reported to the internal audit committee for resolution.

We encourage all the directors to participate in continuing professional development by distributing them training materials relating to corporate governance, functions and duties of directors, listing rules and other regulations, ensuring operation compliance. We incorporate the anti-fraudulent propaganda into the training for new employees, and continue to carry out special risk control trainings covering various business units, to raise employees' awareness of anti-fraud and risk control. In the reporting period, we held anti-corruption trainings for 7 times in total involving 251 new employees.

4 SUPPLY CHAIN MANAGEMENT

We attach supreme attention to managing environmental and social risks of our supply chain. We have formulated relevant policies which provide that our procurement employees must adhere to the principle of being fair, equal and open and follow the 8 Don'ts[1] code of conduct. For external suppliers, we actively disseminate the values of honesty, integrity, respect and responsibility among them. We focus on whether they operate in conformity with laws and regulations, and have formulated and signed "Supplier Code of Conduct (《供應商行為準則》)" with all suppliers in long-term cooperation, which require the suppliers to:

- Comply with laws and regulations on anti-trust, fair trade, anti-corruption, environmental protection, etc. of the territory they operate in;
- Comply with business practices, uphold integrity and honesty, protect IP rights, respect confidentiality, and commit no commercial bribery;
- Deliver on the commitment for human rights and work equality, prohibit use of child and forced labor, and provide free of harassment and discrimination working environment;
- Provide safe and healthy working environment and abide by all applicable laws and regulations on safety and health.

[1] Don't leak Company's secrets or commercial secrets; don't make comments or opinions that may cause adverse impact on the Company; don't designate vendors; don't be compensated from procurement activities; don't accept invitation to meals or entertainments in relation to procurement; don't take profits and commissions from vendors; don't reimburse expenses from suppliers that shall be personally borne; don't make requests irrelevant to work.

We normally ask for price quotations from at least three vendors. Other factors including service quality and technical capabilities of the vendors will be taken into consideration when selecting vendors. Suppliers are subject to background check on registration record at the industrial and commercial bureau, legal conformity, authorization, etc. before being approved. Relevant documents will be recorded when conducting purchasing activities.

To ensure service quality of suppliers, we collect opinions from departments that use or maintain purchased services and evaluate suppliers' performance in terms of risk control, delivery time, product quality, service quality, respond speed, etc. as meaning reference for procurement, and we may visit suppliers' site based on the situation. For suppliers with unsatisfactory performance, under the premise of complying with the applicable contractual arrangements, we may:

- Discuss with them on the remedial steps to help them improve their service quality;
- Reduce the number of orders;
- Impose penalties;
- Terminate payment.

We may disqualify the supplier, if:

- The supplier practise bribery, breach confidentiality, or seriously violates business ethics;
- We suffer significant losses due to late delivery, quality problems or supplier default.

5 COMMUNITY INVESTMENT

We are committed to creating social benefits and giving back to the society in different ways in the course of business development. Leveraging on the advantages of our platform in cultural communication, we set up the Public Welfare Committee to plan the direction of public welfare projects, project scale and resources, to maximize the value we create for society.

In 2020, we organized the following events:

(a) Anti-epidemic essay contest themed on "Power of Us (我們的力量)"

During COVID-19, we opened a free reading column themed on "Battle against COVID-19 scientifically, tide over the difficulties (科學防護，共度時艱)" and offered over 20 books related to epidemic control in helping readers to fully understand the anti-epidemic knowledge. We also launched an anti-epidemic essay competition themed on "Power of Us" to solicit articles or essays about powerful stories of ordinary people in the battle against COVID-19 from all original literature sites and online literature writers. This move was to encourage online literature writers to dig deep into the spiritual power out of suffering, carry forward the positive energy of online literature, convey warmth, and strengthen the determination and confidence to fight against the epidemic. The contest had been highly concerned and recognised by all walks of life. Through the contest, we received over 30,000 works from nearly 30,000 writers.

(b) Donation activities in COVID-19

New Classics Media actively responded to the national call and took actual deeds to fight against the epidemic: 1) purchased a large number of medical masks and other protective equipment via China Siyuan Foundation for Poverty Alleviation and donated them to Hubei Wuhan, and did all we could to fight the epidemic; 2) provided excellent film sources for free to people in Wuhan, to enrich their spiritual and cultural life and boost their confidence and motivation in overcoming the epidemic; and 3) donated anti-epidemic materials to Beijing TV Station, including disinfectant, no-wash hand sanitizer and masks.

(c) Counterpart support to alleviate poverty

In 2020, we organised our employees to carry out the donation activity themed on "Show Kindness, Promote Reading (點滴溫暖，閱在其中)" and Charity Day Game themed on "Sports and Public Welfare from China Literature (閱運動 閱公益)" to combine sports with public welfare, hold charity activities involving all, and donate the above gains towards Shache County, the Xinjiang Uygur Autonomous Region-a key target for poverty alleviation of Pudong New Area. Through the above two activities, we purchased in total 1,200 products from local farmers, contributed 1,500 sets of sandstorm prevention equipment, and donated goods including anti-epidemic materials, daily supplies and stationeries that valued at about RMB17,674.

(d) Livestreaming on fight against the epidemic

New Classics Media organised celebrities to make livestreaming on the fight against the epidemic, so as to call on the public to stay at home, wear masks and take anti-epidemic measures during the epidemic. At the same time, celebrities were encouraged to attend the special livestreaming activity of "My People, My Homeland (我和我的家鄉)" - "Youth Shopping (青春購)" to sell or recommend to purchasing Hubei special local products, helping Hubei in the resumption of work and production.

(e) Realistic essay contest

Well-known original literature websites of our product lines hosted the 4th Realistic Essay Contest themed on "New Age, New Journey (書寫新時代 揚帆新徵程)", targeting at soliciting excellent works which eulogise the new age, describe social scenes, embody spirits of the time and express patriotism. The contest collected over 14,800 works from over 13,700 writers. The works had diversified realistic themes, described aspects in all walks of life and introduced many industrial changes. The realistic essay contest is designed to motivate the output of high-quality works by taking the realistic online literature and its diversified derivative content as the carrier, and further cultivate and explore more outstanding realistic writers and works, reserving vigour for the sustainable development of realistic works.

(f) Public welfare plan named "A Letter for A Child (寫給小朋友的信)"

On the 99 Giving Day in 2020, we, together with Beijing Growing Home Foundation, initiated a public welfare plan named "A Letter for A Child". A Letter for A Child was a public welfare online literature work, which was written by 6 well-known writers of the China Literature and published on our QQ Reading platform. Readers could get involved in the plan through charity contributions and reading reward and other forms to realise "everyone can get involved in public welfare". All earnings from the plan were donated to Beijing Growing Home Foundation, showing our care to children's reading and healthy growth of juveniles.

6 ENVIRONMENTAL PROTECTION

GREEN OPERATION

We recognize the importance of environmental protection and conservation of resources for our sustainable development. To fulfil this concept, we strictly comply with all applicable environmental protection laws and regulations including the *Environmental Protection Law of the People's Republic of China*, incorporate office resources and practice energy conservation and filming site environmental protection into the management regulations, and have implemented a number of energy-saving, water-saving and emission reduction measures to enhance energy efficiency, save energy and water, as well as reduce emissions to the extent possible:

- Promote awareness of garbage classification and install classified garbage bins;
- Prioritize on purchasing and using energy-saving office facilities;
- Adopt environmental-friendly vehicles and improve vehicles' maintenance and management;
- Regular maintenance on water consuming equipment and avoid leakage;
- Put up energy and water saving posters to improve employee environmental awareness.

New Classics Media also attaches great importance to the environmental protection and waste management on the filming site, protects plants and vegetation, and cleans up domestic garbage and waste on time.

ENVIRONMENTAL KEY PERFORMANCE INDICATORS ("KPI")

Below are the environmental KPI of the Company. Unless otherwise specified, such KPIs cover our office buildings in Beijing, Shanghai, Suzhou, Shenzhen, Wuhan, Langfang and Hong Kong. In 2020, due to the expansion of employees, six new offices in Beijing, Shanghai, Suzhou and Shenzhen were included, two of which were relocated and four of which were newly added. Amid the pandemic in 2020, we shortened the working hours in the office and reduced the use of vehicle. As a result, our greenhouse gas emissions ("GHG") and energy consumption had decreased slightly.

(a) Emissions

	2020	2019	2018
Total GHG emissions (Scopes 1 and 2) (tonnes)	**1,577.00**	1,915.13	1,550.54
Direct GHG emissions (Scope 1) (tonnes)	**99.39**	166.39	104.41
Including: Petrol (tonnes)	**99.39**	166.39	104.41
Energy indirect GHG emissions (Scope 2) (tonnes)	**1,477.61**	1,748.75	1,446.13
Including: Electricity purchased (tonnes)	**1,477.61**	1,748.75	1,446.13
Total GHG emissions per floor area (tonnes per square metre)	**0.02**	0.03	0.03
Total non-hazardous waste (tonnes)	**119.70**	121.87	96.79
Total non-hazardous waste per floor area (tonnes per square metre)	**0.002**	0.002	0.002

Note:

1. The emissions arising from our operation is limited, mainly includes domestic wastewater. Domestic wastewater has no material impact as it is discharged into municipal pipelines, so KPI A1.1 (types of direct emissions and respective emissions data) is not disclosed in this report.

2. Due to the business nature, our significant GHG emissions are direct GHG emissions derived from petrol consumption (Scope 1) of vehicles for business and shipping purposes and energy indirect GHG emissions derived from purchased electricity consumption (Scope 2).

3. The GHG inventory includes carbon dioxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

4. The hazardous waste arising from our operation is limited, mainly includes waste toner cartridge and waste ink cartridge from printing equipment at office buildings. Waste toner cartridge and waste ink cartridge have no material impact as they are collected and disposed of by printing suppliers, so KPI A1.3 total hazardous waste produced is not disclosed in this report.

5. Non-hazardous waste arising from our operation mainly includes domestic waste, disposed devices and waste books. Domestic waste is centrally disposed by the property management company. Disposed devices are recorded and handled by the administration department for recycling or disposing. Waste books are recycled and reused. To further reduce non-hazardous waste, we adopt the paperless office platform to reduce paper photocopy and printing, and encourage practices of printing on both sides and reuse of wastepaper, so as to avoid unnecessary paper waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(b) Use of Resources

	2020	2019	2018
Total energy consumption (MWh)	**2,314.68**	2,960.77	2,330.53
Direct energy consumption (MWh)	**406.50**	680.54	427.03
Including: Petrol (MWh)	**406.50**	680.54	427.03
Indirect energy consumption (MWh)	**1,908.18**	2,280.23	1,903.50
Including: Electricity purchased (MWh)	**1,908.18**	2,280.23	1,903.50
Total energy consumption per floor area (MWh per square metre)	**0.04**	0.05	0.04
Running water consumption (tonnes)	**21,102.16**	22,094.64	20,980.32
Running water consumption per floor area (tonnes per square metre)	**0.38**	0.39	0.40

Note:

1. Total energy consumption is worked out by the data of electricity and petrol with reference to the Annex I Fossil Fuel Coefficients in the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

2. Our water resources come from municipal water supply. The data on running water consumption and running water consumption per employee reported here only cover office buildings in Shanghai, Langfang and Shenzhen with the office building of New Classics Media in Beijing. And the water fees of other office buildings in Suzhou, Wuhan, Hong Kong and Beijing are borne by the property management companies.

3. KPI A2.5 total packaging material used for finished products is not applicable to us, as we do not use packaging materials during operation.

4. As we do not use other environmental and natural resources during operation, the aspect of A3 environmental and natural resources and A3.1 description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them are not applicable to us, so they are not disclosed in this report.

OUTLOOK

In the future, we will continue to improve our ESG system and fully consider its impact on sustainability in all aspects of business development. We will, as always, provide and create high-quality content for our customers, work together with our employees, share value with our partners, assume social responsibilities, give back to stakeholders with actions, and relentlessly promote the sustainable development of the Group and the industry.

pwc

羅兵咸永道

To the Shareholders of China Literature Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Literature Limited (the "Company") and its subsidiaries (the "Group") set out on pages 115 to 234, which comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of comprehensive (loss)/income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill

- Fair value measurement of financial assets at fair value through profit or loss – investments in redeemable shares of associates

- Fair value measurement of financial liabilities at fair value through profit or loss – contingent consideration

- Impairment assessment of television series and film rights and adaptation rights and scripts

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 2.7, 2.9, 4(a) and 17 to the consolidated financial statements As at December 31, 2020, the Group had significant amounts of goodwill amounting to RMB6,637.5 million, which were allocated to two cash-generating units ("CGUs"), namely (i) Online Business and (ii) Acquired TV and Film Business. Impairment of RMB4,015.9 million had been provided for against the carrying amounts of goodwill during the year ended December 31, 2020. The Group has engaged an independent external valuer to assist management for performing the goodwill impairment assessments. The recoverable amounts of the CGUs were determined by the higher of its value-in-use ("VIU") and fair value less cost of disposal ("FVLCD"). We focused on this area due to the magnitude of the carrying amounts of the goodwill as at December 31, 2020, and the fact that significant judgements were required by management when selecting key assumptions to be adopted in the valuation models.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the goodwill impairment assessments by assessing its qualifications, relevant experience and relationship with the Group. We assessed the appropriateness of the impairment approaches adopted for the impairment assessments of goodwill. In respect of impairment assessment using VIU, the VIU calculations use cash flow projections based on business plans approved by management. We assessed the key assumptions adopted in the VIU calculations including annual growth rates and gross margin by comparing these assumptions against the historical results of the CGUs, the approved budgets of the CGUs and the Group's business plan. We also assessed certain key valuation assumptions including discount rate with the involvement of our internal valuation experts. We also evaluated management's sensitivity analysis on the key assumptions to which the valuation models are the most sensitive. In respect of impairment assessment using FVLCD, we assessed the valuation assumptions including the selected multiples of the comparable companies, the discount rate for lack of marketability and the premium of control with the involvement of our internal valuation experts. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found management's impairment assessments of goodwill are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss – investments in redeemable shares of associates Refer to Notes 2.11, 3.3, 4(b) and 20 to the consolidated financial statements As at December 31, 2020, the Group had financial assets at fair value through profit or loss, of which investments in redeemable shares of associates of approximately RMB890.4 million were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". The Group has engaged an independent external valuer to assist management for performing the fair value valuation of investments in redeemable shares of associates as at December 31, 2020. We focused on this area due to the high degree of judgement required in determining the respective fair values of investments in redeemable shares of associates, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology (e.g. market approach) and the application of appropriate assumptions (e.g. IPO probability of the associates) in the valuation.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of investments in redeemable shares of associates by assessing its qualifications, relevant experience and relationship with the Group. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used. We tested the valuation of investments in redeemable shares of associates as at December 31, 2020 by evaluating the underlying assumptions including IPO probability of the associates, etc., based on our industry knowledge as well as the recent equity transactions completed by the associates. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found the valuation methodology of the investments in redeemable shares of associates is acceptable and the assumptions made by management are supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial liabilities at fair value through profit or loss – contingent consideration Refer to Notes 3.3, 4(b), 9 and 30 to the consolidated financial statements As at December 31, 2020, the financial liability at fair value through profit or loss in relation to the contingent consideration payable for acquiring New Classics Media Holdings Limited (referred to as the "New Classics Media") was amounting to approximately RMB1,396.1 million, which was resulted from a supplemental deed effective on December 11, 2020, to amend the 2018 Share Purchase Agreement in relation to the acquisition of New Classics Media. During the year ended December 31, 2020, the net fair value change amounting to RMB604.6 million was charged to "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income. The Group has engaged an independent external valuer to assist management for performing the fair value valuation of contingent consideration payable as at December 31, 2020. We focused on this area due to the high degree of judgement required in determining the fair value of the contingent consideration using Monte Carlo Simulation Method. This valuation method required the use of certain key assumptions including growth rate and volatility of the net profit of New Classics Media.	We assessed the competency, capability and objectivity of the independent external valuer engaged by the Group for performing the fair value valuation of contingent consideration payable by assessing its qualifications, relevant experience and relationship with the Group. We read the supplemental deed effective in the current year in relation to the acquisition of New Classics Media and discussed with management to obtain an understanding on the details of the arrangement. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used (e.g. growth rate and volatility of the net profit of New Classics Media) by comparing these assumptions against the historical results, the approved budget and the business plan of New Classics Media. We also independently assessed the reasonableness of the valuation result by comparing it with the result calculated using our in-house valuation model. Based on the above procedures we have performed, we found the valuation methodology of the contingent consideration is acceptable and the assumptions made by management are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of television series and film rights and adaptation rights and scripts Refer to Notes 2.8, 4(a), 23 and 24 to the consolidated financial statements As at December 31, 2020, the Group held significant amounts of television series and film rights and adaptation rights and scripts (recorded in "inventories" of consolidated statement of financial position) amounting to RMB640.5 million and RMB510.7 million, respectively. Television series and film rights includes television series and film rights under production and completed products of approximately RMB586.2 million and RMB54.3 million, respectively. Impairment provisions of RMB249.3 million and RMB33.6 million in respect of television series and film rights and adaptation rights and scripts had been recognised during the year ended December 31, 2020 against these carrying amounts, respectively. We focused on this area due to the fact that management applied significant judgements in assessing the impairment of these television series and film rights and adaptation rights and scripts. In making such assessment, management considered all possible factors that may affect the future production and distribution plans of television series and film rights and adaptation rights and scripts, the available selling price or pre-order price of television series and film rights, discount rate and the current market environment, and exercised judgement in developing its expectation for the future cash flows from these television series and film rights and adaptation rights and scripts.	We assessed whether the accounting policies of the Group in respect of impairment of television series and film rights and adaptation rights and scripts were reasonable by comparing with relevant accounting standards and benchmarking with industry practice. We tested, on a sample basis, management's recoverability assessment of the television series and film rights and adaptation rights and scripts, based on the significance of the balance of each television series and film right and each adaptation right and script. For each selected adaptation rights and scripts recorded in "inventories" of consolidated statement of financial position, we (i) examined the related agreements of the purchased adaption rights and scripts to check their stipulated period of validity; and (ii) assessed the reasonableness of the net realisable value by comparing the estimated selling price to the available price of similar adaptation rights and scripts sold. For each selected sample of adaptation rights and scripts recorded in "television series and film rights" and television series and film rights under production, we (i) discussed with management to understand the current market environment, their future production and distribution plans; (ii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment by comparing the estimated selling price and related costs of the television series and film rights to the available price of the television series, film box office receipts, production and distribution costs of similar television series and films released and the pre-order price offered by the customers if available; and (iii) assessed the reasonableness of discount rate used by comparing with costs of capital of comparable companies.

Key Audit Matter	How our audit addressed the Key Audit Matter
	For each selected sample of television series completed, we examined the license agreements entered into by the Group with respective TV stations and online platforms to validate the estimated selling price of television series. For each selected sample of television series completed with no associated license agreements entered into, we compared the estimated selling price of these television series to the available price of similar television series. For each selected sample of film rights completed but yet to be released, we compared the estimated selling price of these film rights to film box office receipts of similar films released and actual box office receipts if available. We also assessed the reasonableness of the discount rate used in the cash flow forecast for impairment assessment and tested the accuracy of mathematical calculation of the impairment assessment. Based on the above procedures we have performed, we found the assumptions adopted and judgment applied by management in the impairment assessments of television series and film rights and adaptation rights and scripts were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheuk Chi Shing.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 23, 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the year ended December 31, 2020

		Year ended December 31,	
		2020	2019
	Note	**RMB'000**	RMB'000
Revenues	6	**8,525,701**	8,347,767
Cost of revenues	7	**(4,291,625)**	(4,655,744)
Gross profit		**4,234,076**	3,692,023
Interest income	11	**116,315**	157,539
Other (losses)/gains, net	9	**(5,322,903)**	453,194
Selling and marketing expenses	7	**(2,498,187)**	(2,073,937)
General and administrative expenses	7	**(873,766)**	(1,010,282)
Net provision for impairment losses on financial assets		**(130,203)**	(24,630)
Operating (loss)/profit		**(4,474,668)**	1,193,907
Finance costs	10	**(68,785)**	(172,618)
Share of net profit of associates and joint ventures	18	**4,733**	158,508
(Loss)/profit before income tax		**(4,538,720)**	1,179,797
Income tax benefit/(expense)	12	**38,523**	(67,663)
(Loss)/profit for the year		**(4,500,197)**	1,112,134
Other comprehensive (loss)/income:			
Items that may not be reclassified to profit or loss			
Currency translation differences		**(74,717)**	–
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive income/(loss) of associates and joint ventures	18	**1,031**	(10,502)
Currency translation differences		**41,375**	65,723
Total comprehensive (loss)/income for the year		**(4,532,508)**	1,167,355
(Loss)/profit attributable to:			
– Equity holders of the Company		**(4,483,869)**	1,095,953
– Non-controlling interests		**(16,328)**	16,181
		(4,500,197)	1,112,134
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		**(4,516,202)**	1,151,165
– Non-controlling interests		**(16,306)**	16,190
		(4,532,508)	1,167,355
(Loss)/earnings per share (expressed in RMB per share)			
– Basic (loss)/earnings per share	13(a)	**(4.48)**	1.10
– Diluted (loss)/earnings per share	13(b)	**(4.49)**	1.09

The notes on pages 122 to 234 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2020

		As of December 31,	
		2020	2019
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**39,590**	41,521
Right-of-use assets	16	**83,275**	92,630
Intangible assets	17	**7,676,063**	12,168,799
Investments in associates and joint ventures	18	**598,576**	963,551
Financial assets at fair value through profit or loss	20	**915,318**	457,185
Deferred income tax assets	21	**188,519**	190,769
Prepayments, deposits and other assets	22	**314,088**	145,024
		9,815,429	14,059,479
Current assets			
Inventories	23	**571,830**	606,037
Television series and film rights	24	**640,496**	1,107,671
Trade and notes receivables	25	**3,296,287**	3,366,078
Prepayments, deposits and other assets	22	**734,808**	668,351
Restricted bank deposits	26	**–**	94,787
Term deposits	26	**3,408,679**	415,752
Cash and cash equivalents	26	**2,848,231**	5,931,849
		11,500,331	12,190,525
Total assets		**21,315,760**	26,250,004
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**645**	642
Shares held for RSU scheme	31	**(9)**	(19)
Share premium	31	**16,259,688**	16,161,809
Other reserves	32	**1,268,188**	1,135,387
(Accumulated losses)/Retained earnings		**(2,435,005)**	2,098,748
		15,093,507	19,396,567
Non-controlling interests		**5,000**	14,244
Total equity		**15,098,507**	19,410,811

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2020

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	27	**691,494**	–
Lease liabilities	16	**34,830**	34,371
Long-term payables	17	**16,894**	–
Deferred income tax liabilities	21	**187,603**	322,631
Deferred revenue	6	**31,346**	33,462
Financial liabilities at fair value through profit or loss	30	**1,037,924**	535,082
		2,000,091	925,546
Current liabilities			
Borrowings	27	**554,444**	1,303,072
Lease liabilities	16	**50,387**	55,558
Trade payables	28	**1,039,653**	1,020,676
Other payables and accruals	29	**1,149,708**	1,489,689
Deferred revenue	6	**880,333**	717,708
Current income tax liabilities		**184,459**	205,413
Financial liabilities at fair value through profit or loss	19	**358,178**	1,121,531
		4,217,162	5,913,647
Total liabilities		**6,217,253**	6,839,193
Total equity and liabilities		**21,315,760**	26,250,004

The notes on pages 122 to 234 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 115 to 234 were approved by the Board of Directors on March 23, 2021 and were signed on its behalf:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 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 RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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 income								
Loss for the year	–	–	–	–	(4,483,869)	(4,483,869)	(16,328)	(4,500,197)
Other comprehensive income								
– Share of other comprehensive income of associates and a joint venture (Note 18)	–	–	–	1,031	–	1,031	–	1,031
– Currency translation differences	–	–	–	(33,364)	–	(33,364)	22	(33,342)
Total comprehensive loss for the year	–	–	–	(32,333)	(4,483,869)	(4,516,202)	(16,306)	(4,532,508)
Transaction with owners								
Share-based compensation expenses (Note 33)	–		–	120,204	–	120,204	–	120,204
Transfer of vested RSUs	–	9	10	–	–	19	–	19
Issue of ordinary shares as consideration for a business combination (Note 30)	3	97,870	–	–	–	97,873	–	97,873
Liquidation of a non-wholly owned subsidiary	–	–	–	–	–	–	(490)	(490)
Capital injection	–	–	–	–	–	–	2,598	2,598
Acquisition of non-controlling interests (Note 32)	–	–	–	(4,954)	–	(4,954)	4,954	–
Profit appropriations to statutory reserves (Note 32)	–	–	–	49,884	(49,884)	–	–	–
Transactions with owners in their capacity for the year	3	97,879	10	165,134	(49,884)	213,142	7,062	220,204
As of December 31, 2020	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 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 RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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								
Profit for the year	–	–	–	–	1,095,953	1,095,953	16,181	1,112,134
Other comprehensive income								
– Share of other comprehensive loss of associates and joint ventures (Note 18)	–	–	–	(10,502)	–	(10,502)	–	(10,502)
– Currency translation differences	–	–	–	65,714	–	65,714	9	65,723
Total comprehensive income for the year	–	–	–	55,212	1,095,953	1,151,165	16,190	1,167,355
Transaction with owners								
Share-based compensation expenses (Note 33)	–	–	–	141,569	–	141,569	–	141,569
Liquidation in a non-wholly owned subsidiary	–	–	–	–	–	–	(1,641)	(1,641)
Repurchase and cancellation of shares	(7)	(245,828)	–	–	–	(245,835)	–	(245,835)
Transfer of vested RSUs	–	(48,918)	2	–	–	(48,916)	–	(48,916)
Dividends paid	–	–	–	–	–	–	(7,981)	(7,981)
Capital injection	–	–	–	–	–	–	6,200	6,200
Acquisition of non-controlling interests (Note 32)	–	–	–	(4,894)	–	(4,894)	(10,091)	(14,985)
Profit appropriations to statutory reserves (Note 32)	–	–	–	45,350	(45,350)	–	–	–
Transactions with owners in their capacity for the year	(7)	(294,746)	2	182,025	(45,350)	(158,076)	(13,513)	(171,589)
As of December 31, 2019	642	16,161,809	(19)	1,135,387	2,098,748	19,396,567	14,244	19,410,811

The notes on pages 122 to 234 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

		Year ended December 31,	
		2020	2019
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	**1,250,932**	942,045
Income tax paid		**(140,675)**	(159,541)
Net cash flows generated from operating activities		**1,110,257**	782,504
Cash flows from investing activities			
Placements of term deposits with initial term of over three months	34	**(3,408,679)**	(1,251,054)
Receipts from maturity of term deposit with initial term of over three months		**415,752**	1,320,525
Proceeds from disposal of investment in an associate		**–**	67,916
Investments in associates and joint ventures		**–**	(286,132)
Purchase of property, plant and equipment		**(23,728)**	(15,437)
Purchase of intangible assets		**(264,581)**	(201,150)
Proceeds from disposals of property, plant and equipment		**279**	562
Interest received		**103,994**	193,756
Settlement of contingent consideration payable		**(1,021,006)**	(1,192,777)
Payments for acquisition of financial assets at fair value through profit or loss		**(97,874)**	(58,287)
Settlement of forward foreign currency contract		**–**	36,911
Dividends received		**107,293**	90,196
Net cash flows used in investing activities		**(4,188,550)**	(1,294,971)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**1,251,436**	1,157,722
Repayments of borrowings	**(1,308,570)**	(1,620,095)
Placements of restricted bank deposits	**–**	(95,656)
Receipts from restricted bank deposits	**90,724**	–
Proceeds from loan payable due to a related party	**–**	300,000
Repayments of loan payable due to a related party	**–**	(1,000,000)
Proceeds from financial investors in TV programs and film production	**41,081**	26,383
Repayments to financial investors in TV programs and film production	**(44,312)**	(191,073)
Finance costs paid	**(67,415)**	(174,848)
Proceeds from capital injection to a subsidiary by non-controlling interests	**2,598**	2,450
Dividends paid to non-controlling interests in a subsidiary	**–**	(7,981)
Payment for acquisition of non-controlling interests	**–**	(14,985)
Payments for repurchase of ordinary shares	**–**	(245,835)
Principal elements of lease payments	**(57,880)**	(65,849)
Net cash flows used in financing activities	**(92,338)**	(1,929,767)
Net decrease in cash and cash equivalents	**(3,170,631)**	(2,442,234)
Cash and cash equivalents at the beginning of the year	**5,931,849**	8,342,228
Exchange gains on cash and cash equivalents	**87,013**	31,855
Cash and cash equivalents at the end of the year	**2,848,231**	5,931,849

The notes on pages 122 to 234 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

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 the "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.

1 GENERAL INFORMATION (CONTINUED)

The PRC regulations restrict foreign ownership of companies that provide Internet-based business and TV and film production and distribution business, which include activities and services operated by the Group. The Group operates the online business and TV and film business through a series of contractual arrangements (collectively, "Structure Contracts"). For example, Structure Contracts were entered into among Shanghai Yuechao Networking Technology Co., Ltd. ("Yuechao"), a wholly foreign owned enterprise incorporated in the PRC owned by the Group, Shanghai Yuewen Information Technology Co., Ltd. ("Shanghai Yuewen"), a limited liability company established in the PRC by certain management of the Group, and certain management. Under the Structure Contracts, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Shanghai Yuewen and its subsidiaries. In summary, the Structure Contracts provide the Company through Shanghai Yuewen with, among other things:

- the right to receive the cash received by Shanghai Yuewen from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that Yuechao owns the valuable assets of the business through the assignment to Yuechao of the principal present and future intellectual property rights of Shanghai Yuewen without making any payment; and

- the power to control the management and financial and operating policies of Shanghai Yuewen.

As a result, Shanghai Yuewen is accounted for as a controlled structured entity of the Company. Similar Structure Contracts were also executed for other PRC operating companies of the Group similar to Shanghai Yuewen. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 Compliance with IFRS

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments and contingent consideration payables) at fair value through profit or loss, which are carried at fair value.

2.1.3 New and amended standards 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
Amendments to IFRS 16	Covid-19-Related Rent Concessions

The adoption of these amended standards does not have significant impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.4 New standards and interpretations not yet adopted

The following new standards and interpretations have not come into effect for the year beginning January 1, 2020, and have not been early adopted by the Group in preparing the consolidated financial statements. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive (loss)/income, statement of financial position and statement of changes in equity respectively.

2.2.2 Associates

Associates are all entities in which the Group has significant influence, but not control or joint control, over the management, including participation in the financial and operating decisions. Investments in associates are accounted for using the equity method of accounting (refer to Note 2.2.4 below), after initially being recognised at cost.

2.2.3 Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has both joint operations and joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.3 Joint arrangements (Continued)

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

Interests in joint ventures are accounted for using the equity method (Note 2.2.4), after initially being recognised at cost in the consolidated statement of financial position. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill.

2.2.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.5 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollars ("USD"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive (loss)/income.

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated statement of comprehensive (loss)/income as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified at fair value through other comprehensive income ("FVOCI"), are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each consolidated statement of comprehensive (loss)/income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting currency translation differences are recognised as a separate component of other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive (loss)/income during the financial period in which they are incurred.

Depreciation is using the straight-line method to allocate their cost net of their residual values over their estimated useful lives, as follows:

Computer equipment	3 to 5 years
Furniture and fixtures	2 to 5 years
Motor vehicles	4 to 5 years
Leasehold improvements	the shorter of their useful lives and the lease terms

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income.

Construction in progress represents leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalised costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as set out above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Acquired trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks with a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and over their estimated useful lives of no more than 20 years. The useful lives of the trademarks are the periods over which the trademarks are expected to be available for use by the Group, and the management of the Group also takes into account of past experience when estimating the useful lives.

The trademark that acquired in the acquisition of New Classics Media has indefinite useful life. This trademark will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that it may be impaired.

(c) Copyrights of contents

Copyrights of contents purchased from writers are initially recognised and measured at costs. Copyrights of contents acquired in a business combination are recognised initially at fair value at the acquisition date. Copyrights of contents are amortised on a straight-line basis over their estimated useful economic lives of 3 to 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(d) Other intangible assets acquired in a business combination

Other intangible assets acquired in a business combination, mainly including writers' contracts, distribution channel relationships, customers relationships, non-compete agreements, software and domain names, are recognised initially at fair value at the acquisition date and subsequently carried at the amount initially recognised less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

Writers' contracts	5 to 6 years
Distribution channel relationships	5 years
Customer relationships	5 years
Software	3 to 10 years
Domain names	4 to 10 years
Non-compete agreements	4 years

(e) Other intangible assets

Other intangible assets mainly include software, domain names and non-compete agreements associated with certain senior management members' resignation, which were not acquired in a business combination.

Software and domain names are initially recognised and measured at cost. They are amortised over their estimated useful lives (generally 3 to 10 years) using the straight-line method.

Non-compete agreements associated with certain senior management members' resignation are initially recognised and measured at fair value, and are amortised over a period ranging from 2 to 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Television series and film rights

2.8.1 Adaptation rights and scripts

Cost includes all direct costs associated with the purchase of adaptation rights and payments on scripts. Adaptation rights and scripts are transferred to "television series and film rights under production" upon beginning of production.

2.8.2 Television series and film rights under production

Television series and film rights under production are carried at cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and films rights, including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs is recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to "television series and film rights completed" upon completion of production.

2.8.3 Television series and film rights completed

Television series and film rights completed are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements.

2.8.4 Impairment of television series and film rights

Impairment assessment of the television series and film rights is assessed on an annual basis or whenever events or changes in circumstances indicate that the carrying amount is below the recoverable amount, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the consolidated statement of comprehensive (loss)/income. The recoverable amounts of the television series and film rights are determined and reviewed on a title-by-title basis and are based on their fair value that include unobservable inputs and assumptions derived from the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ("CGU"). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Non-current assets held-for-sale

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

2.11.3 Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is recognised in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive (loss)/income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other (losses)/gains, net". Interest income from these financial assets is recognised in finance income using the effective interest rate method. Foreign exchange gains and losses are presented "other (losses)/gains, net" and impairment expenses are presented as separate line item in the consolidated statement of comprehensive (loss)/income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other (losses)/gains, net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

2.11.3 Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other (losses)/gains, net" when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.11.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 25 for further details.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Inventories

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale.

Paper and books are stated at the lower of cost, using the weighted average method, or net realisable value. The inventory held with the distributors is on a consignment basis and is carried as such until sold or returned. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Adaptation rights and scripts (the "Rights") are initially recognised at costs, including all direct costs associated with the purchase of adaptation rights and payments on scripts, which are held for sale in the ordinary course of business. The Rights are reclassified to "Television series and film rights" for the purpose of its own production.

2.14 Trade and notes receivables

Trade and notes receivables are amounts due from customers or agents for services performed or inventories sold in the ordinary course of business. If collection of trade and notes receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and notes receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings (Continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. During the year ended December 31, 2020, no borrowing costs were capitalised by the Group (2019: nil).

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(c) Uncertain tax positions

In determining the amount of current and deferred income tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

(b) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

(c) Share-based compensation benefits of the Group

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of restricted shares units ("RSUs") is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement date and grant date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

(c) Share-based compensation benefits of the Group (Continued)

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognised for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognised over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognised over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

At the end of each reporting period, the Group revises its estimates of the number of RSUs that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.22.1 The accounting policy for the Group's principal revenue sources

(a) Online paid reading

The Group generates revenue from the sale of online premium literature content to the users primarily through its products, its self-operated channels on Tencent products and third-party platforms.

With respect to the online paid reading revenue that derived from the Group's products and self-operated channels, the Group is determined to be the primary obligor and accordingly, the Group records revenue on a gross basis, and the platform distribution charges by Tencent are recorded as cost of revenues. The users generally purchase the content by chapter or by book and cannot cancel the purchase once made. The users can pay for their purchases either through the online payment channels, tokens issued by related parties or through credits directly deposited into their respective accounts which they can make directly on the Group's self-owned platforms or related parties' platforms that including the channels operated by the Group. The purchased content usually has no expiry date unless otherwise stated. The revenue from purchase of online content are recognised at the time of purchase by the users as the Group does not have further obligation after providing the content to the user upon purchase and all other criteria for revenue recognition is met.

With respect to the online paid reading revenue that derived from third-party platforms, the Group evaluated and determined it is not the primary obligor in the service rendered to the end users and accordingly, the Group records its revenue based on the portion of the sharing of revenues that derived from the platforms.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations

Intellectual property operations revenues consist primarily of license of television series and film rights and film distribution in movie theatres (collectively referred to as "revenue from the licensing and distribution of film and television properties"), copyrights licensing and in-house online games operations.

- ***License of television series and film rights***

  The Group generates revenue from license of television series and film rights to TV stations and online platforms. Revenue from license of television series and film rights is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, which is the TV stations and online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

  In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

  At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Film distribution in movie theatres***

The Group generates revenue from film distribution in the movie theatres. Revenue from film distribution represents the Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

However, films is an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is a usage-based royalty. The Group recognises revenue generated from a usage-based royalty only when (or as) the later of the following events occurs:

(i) the usage occurs; and

(ii) the performance obligation to which some or all of the usage-based royalty has been satisfied.

For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation is satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Payments made by the Group to the audiences through online ticket platform for ticket discount are assessed and accounted for the same as those paid directly to the Group's customer, which are recorded as net of revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Copyrights licensing***

The Group generates revenues from sub-licensing copyrights of literary works obtained from writers to online game companies, television producers, movie studios, and traditional offline book publishers for agreed periods. The revenue from sub-licensing agreements is recognised when all the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; (iii) the price to the customer is fixed or determinable; and (iv) collectability is probable. Depending on the terms of the respective agreements, revenue is recognised either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront with no future obligations or over the period of the sub-licensing agreement under which the Group need to provide continuous services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyright) is recognised when the contingency is resolved.

- ***In-house online games operations***

The Group provides game operation services through its own web-based platforms and third party web-based platforms. The Group's games are free-to-play and players can pay for virtual items to enhance the in-game experience. Upon the sale of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective games. As such, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognised as revenue subsequently only when the services have been rendered. The Group concluded the Group takes the primary responsibilities in rendering services and accordingly, the Group records revenue on a gross basis and platform distribution costs are recorded as costs of revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

2.22.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

- ***Sales of adaptation rights and scripts***

  Revenue from sales of adaptation rights and scripts is recognised when or as the control of the rights is transferred to a customer. Control of the rights is transferred to the customers, when an agreement has been signed with a customer and the required documents have been delivered.

(c) Other revenues

The Group's other revenues are primarily derived from sales of physical books, game publishing and advertising. The Group recognises revenue when the effective control of the physical books are transferred, or when the respective services are rendered to the customers. The Group recognises the related revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction.

2.22.2 Principal versus agent considerations

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

The Group evaluates whether it is appropriate to record the gross amount of sales and related costs or the net amount earned as revenues. Generally, when the Group is primarily obligated in a transaction and has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross sale amount. The Group generally records the net amounts as revenues earned if it is not primarily obligated and does not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, or some combination thereof.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (Continued)

2.22.3 Incentives

For the online paid reading users loyalty programme ("VIP customers programme") operated by the Group on its self-owned platform products, the loyalty programme revenue is allocated between the fair value of the VIP customers programme and that of other components of the sale. The amount allocated to the VIP customers programme is deferred, and is recognised as revenue when the Group has fulfilled its obligations to supply the discounted reading service under the terms of the VIP customers programme. Contract liabilities are recognised until the incentives are redeemed.

2.23 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.24 Government grants/subsidies

Grants/subsidies from government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognised as income or matched with the associated costs which the grants/subsidies are intended to compensate.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets are small items of furnitures.

The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, the differences arisen on settlement of the liabilities and the amortisation of the right-of-use assets, there will be a net temporary difference on which deferred tax is recognised.

2.26 Research and development expenses

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 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 and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, Hong Kong Dollars ("HKD"), USD and Singapore Dollars ("SGD"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As of December 31, 2020 and 2019, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD RMB'000	RMB RMB'000	HKD RMB'000	SGD RMB'000
As of December 31, 2020				
Monetary assets, current	**100,913**	**548,367**	**477,096**	**284**
Monetary liabilities, current	**18,587**	**914**	**4,521**	**50**
As of December 31, 2019				
Monetary assets, current	73,782	610,162	245,155	1,022
Monetary liabilities, current	25,011	815	10,908	234

The aggregate net foreign exchange loss was recognised in consolidated statement of comprehensive (loss)/income and included in "finance costs".

As the HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and the USD to be insignificant.

For the PRC subsidiaries whose functional currencies are RMB, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the post-tax loss for the year ended December 31, 2020 would have been approximately RMB5,406,000 lower/higher (post-tax profit for the year ended December 31, 2019: RMB141,000 higher/lower), mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. For group companies outside of the PRC whose functional currencies are USD, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, the post-tax loss for the year ended December 31, 2020 would have been approximately RMB54,769,000 lower/higher (post-tax profit for the year ended December 31, 2019: RMB89,208,000 higher/lower) mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in RMB.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and term deposits, details of which have been disclosed in Note 26.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 27. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

As of December 31, 2020, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended December 31, 2020 would have been approximately RMB2,094,000 higher/lower (2019: nil).

(iii) Price risk

The Group is exposed to price risk in respect of the long-term equity investments measured at fair value through profit or loss (Note 20) held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

Sensitivity analysis is performed by management to assess the exposure of the Group's financial results to equity price risk of FVPL at the end of each reporting period. If prices of the instrument held by the Group had been 5% (December 31, 2019: 5%) higher/lower as at December 31, 2020, post-tax loss for the year would have been approximately RMB45,345,000 lower/higher as a result of gains/losses on financial instruments classified as at FVPL (post-tax profit for the year ended December 31, 2019: RMB22,349,000 higher/lower).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group is exposed to credit risk primarily in relation to its cash and deposits (including term deposits) placed with banks and financial institutions, trade receivables, as well as other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and deposits

Credit risk is managed on a Group basis. To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit losses are immaterial.

(ii) Credit risk of trade receivables

To manage this risk, the Group has policies in place to ensure that revenues of on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. As at December 31, 2020, approximately 35.6% and 33.6% of the total trade receivables were due from Tencent and a third party customer which is primarily engaged in online entertainment services, respectively.

For the Group's online paid reading business, trade receivables at the end of each reporting period were mainly due from certain content distribution partners (including Tencent's platforms) in Mainland China. If the strategic relationship with content distribution partners is terminated or scaled back; or if content distribution partners alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with content distribution partners to ensure effective credit control. In view of the history of cooperation with content distribution partners and the sound collection history of receivables due from them, the directors of the Company believe that the expected credit loss inherent in the Group's outstanding trade receivable balances due from content distribution partners (except for the impaired receivables) is low.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

For trade receivables of the physical books business, which are mainly from agencies, the credit quality of each agent is assessed, which takes into account its financial position, past experience and other factors. Based on historical experience, majority of the trade receivables of the physical books business were settled within credit term, hence the expected credit loss is low.

For trade receivables due from TV stations, online platforms and film distributors, if the strategic relationship with TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if TV stations, online platforms and film distributors alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with TV stations, online platforms and film distributors to ensure effective credit control.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the year end with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations; and
- actual or expected significant changes in the operating results of customers.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2020 and 2019 was determined as follows:

As of December 31, 2020	Within credit terms	Credit term – 30 days	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate							
Expected loss rate on collective basis	0.54%	0.71%	0.83%	1.00%	1.00%	13.48%	
Expected loss rate on individual basis	–	–	–	–	–	100.00%	
Gross carrying amount – trade receivables	1,395,293	447,787	345,981	137	49,700	1,240,420	3,479,318
Loss allowance							
Loss allowance provision on collective basis	7,411	3,200	2,857	1	497	166,977	180,943
Loss allowance provision on individual basis	–	–	–	–	–	2,088	2,088

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

As of December 31, 2019	Within credit terms	Credit term – 30 days	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate							
Expected loss rate on collective basis	0.67%	0.68%	0.71%	1.00%	1.00%	5.32%	
Gross carrying amount – trade receivables	1,646,206	440,927	346,089	81,741	–	917,347	3,432,310
Loss allowance							
Loss allowance provision on collective basis	11,106	2,995	2,467	817	–	48,847	66,232

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**66,232**	19,072
Provision for doubtful receivables	**150,171**	55,685
Receivables written off during the year as uncollectable	**(200)**	(98)
Collection of amounts previously impaired	**(33,172)**	(8,427)
At the end of the year	**183,031**	66,232

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of rental deposits, staff advances and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrower.

Management considers other receivables to be low credit risk when they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2020					
Trade payables	**1,039,653**	**–**	**–**	**–**	**1,039,653**
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	**958,766**	**12,988**	**788**	**–**	**972,542**
Borrowings	**554,444**	**300,000**	**391,494**	**–**	**1,245,938**
Financial liabilities at fair value through profit or loss (Note 30)	**157,193**	**155,941**	**313,688**	**–**	**626,822**
Lease liabilities (Note 16)	**49,907**	**31,667**	**8,823**	**223**	**90,620**
	2,759,963	**500,596**	**714,793**	**223**	**3,975,575**
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	1,303,072	–	–	–	1,303,072
Financial liabilities at fair value through profit or loss (Note 30)	1,021,006	354,180	–	–	1,375,186
Lease liabilities (Note 16)	62,330	27,186	18,269	391	108,176
	4,618,533	381,366	18,269	391	5,018,559

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debts. As of December 31, 2020 and 2019, the Group has a net cash position.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as of December 31, 2020 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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 assets and liabilities that are measured at fair value as of December 31, 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2020				
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares of associates	–	–	890,444	890,444
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	12,874	–	–	12,874
	12,874	–	902,444	915,318
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portion)	–	–	1,396,102	1,396,102

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2019				
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 portion)	–	–	1,656,113	1,656,113
	–	–	1,656,613	1,656,613

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

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 years ended December 31, 2020 and 2019.

The changes in level 3 instruments for the years ended December 31, 2020 and 2019 are presented in the following table:

	Financial assets		**Financial liabilities**	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Opening balance	**441,842**	444,137	**1,656,613**	3,145,119
Additions	**471,907**	44,192	**220,358**	–
Changes in fair value	**(11,624)**	(23,138)	**(858,870)**	(273,003)
Modification of contingent consideration payable	**–**	–	**1,463,431**	–
Settlement of contingent consideration payable	**–**	–	**(1,118,878)**	(1,192,777)
Conversion of an associate's preferred shares to ordinary shares	**–**	(23,000)	**–**	–
Currency translation differences	**319**	(349)	**33,448**	(22,726)
Closing balance	**902,444**	441,842	**1,396,102**	1,656,613
Include unrealised (losses)/gains recognised in profit or loss attributable to balances held at the end of the reporting period	**(11,624)**	(23,138)	**–**	273,003

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Valuation inputs and relationships to fair value

The Group has engaged independent external valuers for performing the fair value valuation of investments in redeemable shares of associates and contingent consideration payables as of December 31, 2020 and 2019.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value As of December 31,		Significant Unobservable inputs	Range of inputs As of December 31,		Relationship of unobservable inputs to fair value
	2020	2019		**2020**	2019	
	RMB'000	RMB'000		**RMB'000**	RMB'000	
Asset						
Investments in redeemable shares of associates	**418,537**	398,000	IPO probability	**40%-50%**	40%-45%	The higher the IPO probability, the higher the fair value.
Liabilities						
Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests	**–**	500	Note a			
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media	**1,396,102**	1,656,113	Note b	**Growth rate: 15%**	Growth rate: 35%	The higher the growth rate, the higher the fair value.
				Expected volatility: 35%	Expected volatility: 25%	The higher the expected volatility, the lower the fair value.

Notes

(a) The significant unobservable input of consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests is the estimated financial performances of the underlying acquired non-controlling interest. The Group determined the fair value of these considerations payable based on the estimated financial performance and the predetermined formula that set out in the respective share purchase agreement.

(b) The significant unobservable inputs of contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media include the growth rate and volatility of net profit of New Classics Media used for reflecting the associated risk of the payment to arrive the present value of consideration.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Sensitivity analysis

For the fair value of the Group's level 3 instruments, namely the investment in redeemable shares of associates, reasonably possible changes at December 31, 2020 and 2019 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	As of December 31,			
	2020		2019	
	Changes in fair value (in RMB'000)			
	Increase	**Decrease**	Increase	Decrease
Investments in redeemable shares of associates				
– IPO probability (5% movement)	**3,700**	**(10,400)**	8,800	(3,300)
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media				
– Growth rate (5% movement)	**73,057**	**(97,333)**	64,981	(66,125)
– Expected volatility (5% movement)	**(65,585)**	**66,441**	(33,714)	25,320

The carrying amounts of the Group's other financial assets including cash and cash equivalents, current term deposit, restricted bank deposits, trade and notes receivables, other receivables, and the Group's financial liabilities, including trade payables, other payables and accruals approximate to their fair values due to their short maturities. The carrying amounts of the Group's short-term and long-term borrowings approximate to their fair value as the interest rates they bear reflect the current market yield for comparable borrowings.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Recoverability of non-financial assets

Television series and film rights

The management of the Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- An asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; and

- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a television series-by-television series and film-by-film basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

The key assumptions made by the management used in the cash flow forecasts mainly include license agreements entered or to be entered into by the Group, historical trend of similar film released and discount rate. Discount rate adopted when calculating discounted cash flows, which reflects market assessments of time value and the specific risks relating to the industry that the Group operates. The Group's estimation of recoverable amount of television series and film rights reflects the management's best estimate of future cash flows expected to be generated from the television series and film rights.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Recoverability of non-financial assets (Continued)

Goodwill and other non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive (loss)/income.

(b) Fair value measurement of FVPL

The fair value assessment of FVPL that are measured at level 3 fair value hierarchy requires significant estimates, which include the IPO probability, growth rate, expected volatility, future cash flows, appropriate discount rates, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

With respect to the valuation of the contingent consideration payable that arising from the Group's acquisition of New Classics Media, the Group uses its judgement to select an appropriate method and make assumptions, including the growth rate and volatility of net profit of New Classics Media, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Useful lives and amortisation charges of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortisation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore amortisation expense in future periods.

(d) Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 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 December 31, 2020 and 2019, the chief executive officers 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 adaptation rights and scripts, sales of physical books, in-house online games operations, etc.).

As of December 31, 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 (loss)/profit of investments accounted for using equity method and income tax expense are also not allocated to individual operating segment.

5 SEGMENT INFORMATION (CONTINUED)

There were no material inter-segment sales during the years ended December 31, 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 these consolidated financial statements. 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 the PRC.

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended December 31, 2020 and 2019 is as follows:

	Year ended December 31, 2020		
	Online business RMB'000	**Intellectual property operations and others RMB'000**	**Total RMB'000**
Segment revenues	**4,932,184**	**3,593,517**	**8,525,701**
Cost of revenues	**2,354,619**	**1,937,006**	**4,291,625**
Gross profit	**2,577,565**	**1,656,511**	**4,234,076**

	Year ended December 31, 2019		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
Segment revenues	3,710,418	4,637,349	8,347,767
Cost of revenues	1,600,610	3,055,134	4,655,744
Gross profit	2,109,808	1,582,215	3,692,023

5 SEGMENT INFORMATION (CONTINUED)

The reconciliation of gross profit to profit before income tax of individual period during the year ended December 31, 2020 and 2019 is shown in the consolidated statement of comprehensive (loss)/income.

For the year ended December 31, 2020, the Group's customer base is diversified and includes only Tencent and a third party customer which is primarily engaged in online entertainment services, with whom transactions have exceeded 10% of the Group's revenues, respectively (2019: only Tencent exceeded 10%).

As of December 31, 2020 and 2019, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

6 REVENUES

6.1 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:

	Online business			Intellectual property operations and others		
Year ended December 31, 2020	**On self-owned platform products RMB'000**	**On self-operated channels on Tencent products RMB'000**	**On third-party platforms RMB'000**	**Intellectual property operations RMB'000**	**Others RMB'000**	**Total RMB'000**
Timing of revenue recognition:						
– At a point in time	**3,589,741**	**485,163**	**346,932**	**2,612,932**	**124,793**	**7,159,561**
– Over time	**313,706**	**196,642**	**–**	**838,175**	**17,617**	**1,366,140**
	3,903,447	**681,805**	**346,932**	**3,451,107**	**142,410**	**8,525,701**

6 REVENUES (CONTINUED)

6.1 Disaggregation of revenue from contracts with customers (Continued)

Year ended December 31, 2019	Online business: On self-owned platform products RMB'000	Online business: On self-operated channels on Tencent products RMB'000	Online business: On third-party platforms RMB'000	Intellectual property operations and others: Intellectual property operations RMB'000	Intellectual property operations and others: Others RMB'000	Total RMB'000
Timing of revenue recognition:						
– At a point in time	2,171,729	667,580	449,249	3,491,699	196,978	6,977,235
– Over time	253,413	168,447	–	931,405	17,267	1,370,532
	2,425,142	836,027	449,249	4,423,104	214,245	8,347,767

6.2 Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Deferred revenue		
Online business	**595,189**	300,091
Intellectual property operations and others	**316,490**	451,079
	911,679	751,170

6 REVENUES (CONTINUED)

6.2 Liabilities related to contracts with customers (Continued)

(a) Significant changes in deferred revenue

Deferred revenue mainly comprises contract liabilities in relation to 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2020 and 2019; 2) the balance of deferred copyrights licensing income to be amortised over remaining sub-licensing period, and the portion to be recognised over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position; and 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, or advertising services have not been provided.

(b) Revenue recognised in relation to deferred revenue

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward deferred revenue:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	**300,091**	208,748
Intellectual property operations and others	**305,088**	574,245
	605,179	782,993

7 EXPENSES BY NATURE

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Promotion and advertising expenses (Note a)	**2,016,483**	1,537,689
Content costs (Note b)	**1,464,506**	1,477,077
Platform distribution costs (Note c)	**1,194,357**	569,497
Production costs of television series and film rights	**862,629**	1,956,421
Employee benefits expenses (Note (d) and Note 8)	**701,577**	866,936
Payment handling costs	**323,816**	329,693
Impairment loss on television series and film rights	**249,255**	177,636
Amortisation of intangible assets (Note 17)	**215,948**	174,729
Game development outsourcing costs	**97,263**	88,728
Professional service fees	**85,731**	87,494
Bandwidth and server custody fees	**75,884**	58,073
Depreciation of right-of-use assets (Note 16)	**62,268**	61,451
Cost of physical inventories sold	**49,394**	69,894
Provision for physical inventory obsolescence	**45,223**	60,263
Travelling, entertainment and general office expenses	**40,705**	54,346
Impairment loss on prepayments to directors, actors and writers	**32,000**	20,000
Depreciation of property, plant and equipment (Note 15)	**23,703**	22,306
Auditors' remuneration		
– Audit services	**10,003**	9,074
– Non-audit services	**1,292**	1,058
Logistic expenses	**5,552**	7,817
Expense relating to short-term leases (Note 16)	**4,242**	4,728
Others	**101,747**	105,053
	7,663,578	7,739,963

Notes:

(a) Promotion and advertising expenses 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) 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.

(c) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.

(d) Research and development expenses (being included in the Group's general and administrative expenses) for the year ended December 31, 2020 was approximately RMB550,302,000 (2019: RMB481,795,000) which mainly consisted of employee benefits expenses.

8 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**570,155**	460,875
Other social security costs, housing benefits and other employee benefits	**109,179**	110,345
Pension costs – defined contribution plans	**11,642**	54,147
Share-based compensation expenses (Note 33)	**120,204**	141,569
Other compensation costs (Note 30)	**(109,603)**	100,000
	701,577	866,936

Note:

Majority of the Group's contributions to pension plans are related to the local employees in the PRC. All local employees of the subsidiaries in the PRC participate in employee social security plans established in the PRC, which cover pension, medical and other welfare benefits. The plans are organised and administered by the governmental authorities. Except for the contributions made to these social security plans, the Group has no other material commitments owing to the employees. According to the relevant regulations, the portion of premium and welfare benefit contributions that should be borne by the companies within the Group as required by the above social security plans are principally determined based on percentages of the basic salaries of employees, subject to certain ceilings imposed. These contributions are paid to the respective labour and social welfare authorities and are expensed as incurred. The applicable percentages used to provide for these social security plans for the years ended December 31, 2020 and 2019 are listed below:

	Percentage
Pension insurance	0.0% – 20.0%
Medical insurance	1.5% – 11.7%
Unemployment insurance	0.0% – 0.8%
Housing fund	8.0% – 12.0%

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group do not include directors during the year ended December 31, 2020 (2019: one), and their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the five (2019: five) individuals during the year ended December 31, 2020, are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Salaries and wages	**6,958**	5,219
Discretionary bonuses	**5,399**	2,617
Other social security costs, housing benefits and other employee benefits	**300**	326
Pension costs-defined contribution plans	**20**	243
Share-based compensation expenses	**21,591**	19,180
Other compensation costs	**–**	93,251
	34,268	120,836

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Emoluments bands:		
HKD20,000,001 to HKD80,000,000	**–**	2*
HKD10,000,001 to HKD20,000,000	**1**	1
HKD5,000,001 to HKD10,000,000	**4**	2
HKD4,000,001 to HKD5,000,000	**–**	–
HKD3,000,001 to HKD4,000,000	**–**	–
HKD2,000,001 to HKD3,000,000	**–**	–
HKD1,000,001 to HKD2,000,000	**–**	–
	5	5

* Including no employee (2019: two employees) of a subsidiary of the Group and his/her emolument amounts are mainly comprised of charges related to the contingent compensation arrangement.

During the years ended December 31, 2020 and 2019, no director or the five highest paid individuals received any emoluments from the Group as an inducement to join or leave the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors

(i) Directors' and the chief executive's emoluments

The remuneration of each director for the year ended December 31, 2020 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Other compensation costs RMB'000	Total RMB'000
Executive directors								
– Cheng Wu[(1)]	850	–	–	–	–	1,696	–	2,546
– Hou Xiaonan[(1)]	550	–	–	–	–	848	–	1,398
– Wu Wenhui[(2)]	–	1,020	–	4	23	–	–	1,047
– Liang Xiaodong[(3)]	–	–	–	–	–	–	–	–
Non-executive directors								
– James Gordon Mitchell[(4)]	–	–	–	–	–	–	–	–
– Cao Huayi[(5)]	–	606	500	4	70	–	(73,881)	(72,701)
– Chen Fei[(6)]	–	–	–	–	–	–	–	–
– Cheng Yun Ming Matthew[(7)]	–	–	–	–	–	–	–	–
– Wu Wenhui[(2)]	–	–	–	–	–	–	1,527	1,527
Independent non-executive directors								
– Yu Chor Woon Carol[(11)]	505	–	421	–	–	–	–	926
– Leung Sau Ting Miranda[(11)]	505	–	555	–	–	–	–	1,060
– Liu Junmin[(11)]	505	–	421	–	–	–	–	926
	2,915	1,626	1,897	8	93	2,544	(72,354)	(63,271)

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

The remuneration of each director for the year ended December 31, 2019 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary bonuses RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Other compensation costs RMB'000	Total RMB'000
Executive directors								
– Wu Wenhui[2]	–	3,014	1,395	51	80	–	–	4,540
– Liang Xiaodong[3]	–	–	1,000	–	–	2,755	–	3,755
Non-executive directors								
– James Gordon Mitchell[4]	–	–	–	–	–	–	–	–
– Cao Huayi[5]	–	606	51	52	74	–	65,954	66,737
– Chen Fei[6]	–	–	–	–	–	–	–	–
– Cheng Yun Ming Matthew[7]	–	–	–	–	–	–	–	–
– Li Ming[8]	–	–	–	–	–	–	–	–
– Yang Xiang Dong[9]	–	–	–	–	–	–	–	–
– Lin Haifeng[10]	–	–	–	–	–	–	–	–
Independent non-executive directors								
– Yu Chor Woon Carol[11]	448	–	179	–	–	–	–	627
– Leung Sau Ting Miranda[11]	448	–	179	–	–	–	–	627
– Liu Junmin[11]	448	–	179	–	–	–	–	627
	1,344	3,620	2,983	103	154	2,755	65,954	76,913

Notes:

(1) Appointed as a director of the Company on April 27, 2020.

(2) Appointed as an executive director of the Company on November 6, 2014 and re-designated as a non-executive director on April 27, 2020.

(3) Appointed as a director of the Company on November 6, 2014 and resigned on April 27, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

Notes: (Continued)

(4) Appointed as a director of the Company on June 29, 2017.

(5) Appointed as a director of the Company on May 17, 2019.

(6) Appointed as a director of the Company on May 17, 2019 and resigned on April 27, 2020.

(7) Appointed as a director of the Company on November 22, 2019.

(8) Appointed as a director of the Company on October 18, 2017 and retired on May 17, 2019.

(9) Appointed as a director of the Company on May 9, 2016 and retired on May 17, 2019.

(10) Appointed as a director of the Company on November 6, 2014 and resigned on November 22, 2019.

(11) Appointed as a director of the Company on October 18, 2017.

(ii) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9 OTHER (LOSSES)/GAINS, NET

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Impairment loss of goodwill (Note 17)	**(4,015,854)**	–
Loss from modification of contingent consideration payable (Note 30)	**(1,463,431)**	–
Impairment loss of other intangible assets (Note 17)	**(537,086)**	–
Impairment provision for investments in associates and a joint venture (Note 18)	**(251,960)**	(17,400)
Fair value loss of investments in redeemable shares of associates (Note 20)	**(11,624)**	(23,138)
(Loss)/gain on disposal of film rights and a television series (Note a)	**(9,573)**	10,647
Fair value (loss)/gain of investment in a listed entity (Note 20)	**(1,305)**	1,249
Fair value gain on contingent consideration payable (Note 30)	**858,870**	273,003
Subsidies and tax rebates	**104,305**	110,107
Gain on copyright infringements	**12,866**	80,545
Fair value gain of derivative financial asset	**–**	10,107
Others, net	**(8,111)**	8,074
	(5,322,903)	453,194

Note:

(a) During the year ended December 31, 2020, the Group disposed partial of its economic benefits of a television series, and the difference between the carrying value of approximately RMB151,546,000 and cash consideration was recognised as "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income.

10 FINANCE COSTS

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Interest expenses on borrowings	**64,195**	166,521
Interest expenses on lease liabilities (Note 16)	**3,483**	4,801
Foreign exchange loss, net	**1,107**	747
Guarantee expense	**–**	549
	68,785	172,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

11 INTEREST INCOME

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Interest income on bank deposits	**116,315**	157,539

12 INCOME TAX (BENEFIT)/EXPENSE

(i) Cayman Islands corporate income tax

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.

(ii) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. The operation in Hong Kong has incurred net accumulated operating losses for income tax purposes and no income tax provisions are recorded for the periods presented.

(iii) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits 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 year ended December 31, 2020 (2019: 25%).

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 years ended December 31, 2020 and 2019 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.

12 INCOME TAX (BENEFIT)/EXPENSE (CONTINUED)

(iii) PRC corporate income tax ("CIT") (Continued)

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Current tax	**94,255**	290,050
Deferred income tax (Note 21)	**(132,778)**	(222,387)
Income tax (benefit)/expense	**(38,523)**	67,663

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2020 (2019: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analysed as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
(Loss)/profit before income tax	**(4,538,720)**	1,179,797
Share of net profit of associates and joint ventures	**(4,733)**	(158,508)
Tax calculated at PRC statutory tax rate of 25%	**(1,135,863)**	255,322
Effects of respective tax rates applicable to different subsidiaries of the Group	**(85,352)**	(126,363)
Unrecognised deferred income tax assets	**52,748**	32,027
Non-deductible expenses less non-taxable income	**1,180,706**	(46,955)
Research and development tax credit	**(50,762)**	(46,368)
Income tax (benefit)/expense	**(38,523)**	67,663

13 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share for the years ended December 31, 2020 and 2019 are calculated by dividing the (loss)/profit attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the periods.

	Year ended December 31,	
	2020	2019
Net (loss)/profit attributable to the equity holders of the Company (RMB'000)	**(4,483,869)**	1,095,953
Weighted average number of ordinary shares in issue (thousand)	**999,997**	998,066
Basic (loss)/earnings per share (expressed in RMB per share)	**(4.48)**	1.10

(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 an associate of the Group into ordinary shares of the associate is included in the computation of loss per share for the year ended December 31, 2020 as the impact would be dilutive.

For the year ended December 31, 2019, the Company has the dilutive potential ordinary shares of 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 annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings. For the year ended December 31, 2020, the potential ordinary shares of RSU granted to employees were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive.

	Year ended December 31,	
	2020	2019
Net (loss)/profit attributable to the equity holders of the Company (RMB'000)	**(4,483,869)**	1,095,953
Impact of a joint venture's and an associate's potential ordinary shares (RMB'000)	**(5,448)**	(326)
Net (loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	**(4,489,317)**	1,095,627
Weighted average number of ordinary shares in issue (thousand)	**999,997**	998,066
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media (thousand)	**–**	3,445
Adjustments for share-based compensation-RSUs (thousand)	**–**	6,409
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousand)	**999,997**	1,007,920
Diluted (loss)/earnings per share (expressed in RMB per share)	**(4.49)**	1.09

14 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2020 (2019: nil).

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
At December 31, 2020						
Opening net book amount as of January 1, 2020	**21,441**	**12,768**	**2,896**	**2,009**	**2,407**	**41,521**
Additions	**11,764**	**1,302**	**2,156**	**217**	**6,982**	**22,421**
Transfer from construction in progress	**–**	**9,256**	**–**	**–**	**(9,256)**	**–**
Disposals	**(244)**	**(291)**	**(73)**	**(24)**	**–**	**(632)**
Depreciation	**(9,119)**	**(12,224)**	**(1,619)**	**(741)**	**–**	**(23,703)**
Currency translation differences	**(5)**	**(12)**	**–**	**–**	**–**	**(17)**
Closing net book amount as of December 31, 2020	**23,837**	**10,799**	**3,360**	**1,461**	**133**	**39,590**
At December 31, 2019						
Opening net book amount as of January 1, 2019	19,090	22,143	3,841	2,622	–	47,696
Additions	10,311	2,351	327	1,227	2,407	16,623
Disposals	(343)	–	(5)	(8)	–	(356)
Liquidation of subsidiaries	(136)	–	(2)	–	–	(138)
Depreciation	(7,493)	(11,715)	(1,266)	(1,832)	–	(22,306)
Currency translation differences	12	(11)	1	–	–	2
Closing net book amount as of December 31, 2019	21,441	12,768	2,896	2,009	2,407	41,521

During the year ended December 31, 2020, depreciation expense of approximately RMB1,477,000 (2019: RMB781,000), RMB1,645,000 (2019: RMB2,688,000) and RMB20,581,000 (2019: RMB18,837,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

16 LEASES

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

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

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

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Right-of-use assets		
Properties	**83,085**	92,234
Vehicle	**7**	352
Equipment	**183**	44
	83,275	92,630
Lease liabilities		
Current	**50,387**	55,558
Non-current	**34,830**	34,371
	85,217	89,929

Additions to the right-of-use assets during the year ended December 31, 2020 were RMB66,296,000 (2019: RMB14,392,000).

16 LEASES (CONTINUED)

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

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

	Year ended December 31, 2020 RMB'000	Year ended December 31, 2019 RMB'000
Depreciation charge of right-of-use assets		
Properties	**(61,913)**	(61,171)
Vehicle	**(97)**	(155)
Equipment	**(258)**	(125)
	(62,268)	(61,451)
Interest expense (included in finance costs)	**3,483**	4,801
Expense relating to short-term leases (included in general and administrative expenses)	**4,242**	4,728
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	**31**	–
	7,756	9,529

For the year ended December 31, 2020, the total cash outflow for leases was approximately RMB61,363,000 (2019: RMB70,650,000).

(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 18 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 in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Non-compete agreements RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
At December 31, 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**	**–**	**237,148**	**–**	**5,537**	**–**	**281,525**
Amortisation	**–**	**(13,100)**	**(23,951)**	**(160,616)**	**(14,667)**	**(3,512)**	**(102)**	**(215,948)**
Impairment provision	**(4,015,854)**	**–**	**(483,930)**	**(53,121)**	**–**	**(35)**	**–**	**(4,552,940)**
Currency translation differences	**–**	**–**	**–**	**(5,373)**	**–**	**–**	**–**	**(5,373)**
Closing net book amount as of December 31, 2020	**6,637,471**	**43,023**	**597,816**	**367,885**	**21,999**	**5,660**	**2,209**	**7,676,063**

Note:

(a) On April 27, 2020, certain members of the senior management of the Group have tendered their resignation to the Group. The senior management entered into several contracts associated with his resignation, which contained non-compete clauses covering a period ranging from two to five years. Such non-compete agreements were measured at fair value and recognised as "intangible assets" in the consolidated statement of financial position. The aforementioned intangible assets of approximately RMB38,840,000 are amortised over their respective contractual period by using the straight-line method. As of December 31, 2020, approximately RMB27,878,000 is expected to be paid, among which approximately RMB16,894,000 will be payable after December 31, 2021, and is recognised as "long-term payables" in the consolidated statement of financial position.

	Goodwill RMB'000	Non-compete agreements RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Distribution channel relationships RMB'000	Customers relationships RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
At December 31, 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	–	–	–	198,334	–	–	–	3,003	–	201,337
Amortisation	–	(6,100)	(27,196)	(122,771)	(14,667)	(800)	(21)	(2,949)	(225)	(174,729)
Liquidation of a subsidiary	–	–	–	(3)	–	–	–	–	–	(3)
Currency translation differences	–	–	–	1,036	–	–	–	1	–	1,037
Closing net book amount as of December 31, 2019	10,653,325	17,283	1,105,697	349,847	36,666	–	–	3,670	2,311	12,168,799

17 INTANGIBLE ASSETS (CONTINUED)

During the year ended December 31, 2020, amortisation expense of approximately RMB175,706,000 (2019: RMB136,496,000), RMB nil (2019: RMB2,315,000) and RMB40,242,000 (2019: RMB35,918,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

As of December 31, 2020, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation ("Cloudary") in 2014, the acquisition of the entities operating online literature business through the brand of "Chuangshi" ("Chuangshi") in 2014 and the acquisition of 100% equity interests in New Classics Media in 2018 (or referred to as "acquired TV and film business" hereafter).

(a) Impairment tests for goodwill

As of December 31, 2020 and 2019, goodwill is allocated to the Group's CGUs identified as follows:

	As of December 31, 2020 RMB'000	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

Online business

Impairment review on the goodwill relating to online business has been conducted by the management as of December 31, 2020 and 2019 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 December 31, 2020 and 2019, 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 plan for the purpose of impairment reviews covering a ten-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 plans and market developments.

17 INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for goodwill (Continued)

Online business (Continued)

The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill relating to online business was recognised as of December 31, 2020 and 2019.

Acquired TV and film business

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 FVLCD and value-in-use calculation.

As of June 30, 2020, the recoverable amount of goodwill was determined based on value-in-use calculation. The value-in-use calculation 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.

The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments. As of June 30, 2020, the Group recognised an impairment provision of approximately RMB4,015,854,000 against the carrying amount of goodwill relating to acquired TV and film business as of December 31, 2020 (2019: no impairment loss on the goodwill).

17 INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for goodwill (Continued)

Acquired TV and film business (Continued)

As of December 31, 2020, the impairment review of the goodwill relating to the acquired TV and film business was conducted again by the management using the same valuation method than that as of June 30, 2020, as the annual impairment test is required to be performed at the same time every year according to IAS 36 "Impairment of assets". In the assessment, the Group considered the following: 1) the macroeconomic environment of the film and television industry recovered during the second half of 2020, which led to an increase in the number of project filings, productions and releases, as well as an increase in the expected profits from certain projects; and 2) as China recovered from the COVID-19 epidemic, previous factors that negatively impacted the New Classics Media's business during the first half of 2020, such as production delays, uncertain release dates and elongated production cycle for films and television projects, were reduced as business activities resumed. As of December 31, 2020, the value-in-use calculation use cash flow projections based on business projection for the purpose of impairment reviews covering a five-year period.

The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments. Based on the results of the assessment, no further impairment of goodwill relating to acquired TV and film business was recognised as of December 31, 2020 (2019: nil).

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

2020	**Online business**	**Acquired TV and film business**
Gross margin (%)	**From 48.7% to 61.4%**	**From 42.7% to 45.0%**
Annual growth rate (%)	**From 9.8% to 18.6%**	**From 0.2% to 21.7%**
Pre-tax discount rate (%)	**22.5%**	**17.4%**

2019	Online business	Acquired TV and film business
Gross margin (%)	From 50.8% to 59.1%	From 37.1% to 48.8%
Annual growth rate (%)	From 10.3% to 19.1%	From 3.8% to 29.1%
Pre-tax discount rate (%)	21.6%	18.8%

17 INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for goodwill (Continued)

Acquired TV and film business (Continued)

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.

If the budgeted revenue growth rate for each year during the forecast period used in online business value-in-use calculation had been 5% lower than our management's estimates on December 31, 2020 and 2019, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB4,242 million and RMB1,290 million, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than our management's estimates on December 31, 2020 and 2019, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB4,455 million and RMB1,719 million, respectively.

If the budgeted revenue growth rate for each year during the forecast period used in the acquired TV and film business value-in-use calculation had been 5% lower than our management's estimates on December 31, 2020 and 2019, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB645 million and RMB1,088 million, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than our management's estimates on December 31, 2020 and 2019, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB371 million and RMB1,263 million, respectively.

17 INTANGIBLE ASSETS (CONTINUED)

(b) 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 December 31, 2020 and 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment assessment, the recoverable amount of the trademarks with indefinite life is determined based on the higher amount of the FVLCD and value-in-use calculations. As of December 31, 2020 and 2019, the recoverable amount of 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, which were the same as that for the goodwill impairment tests. The discount rate adopted by the Group when calculating discounted cash flows was also the same as that for the goodwill impairment tests. As of December 31, 2020, the Group recognised an impairment provision of approximately RMB389,816,000 (2019: nil) against the carrying amount of trademark relating to acquisition of New Classics Media. The impairment provision mainly resulted from revisions of financial/business outlook and changes in the market environment of the underlying business. Sensitivity analysis is performed by management as of December 31, 2020 and 2019, and the estimated changes in recoverable amount is considered to be immaterial.

During the year ended December 31, 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 trademarks arising from the acquisition of Cloudary has been conducted by the management as of December 31, 2020 according to IAS 36 "Impairment of assets". As of December 31, 2020, the recoverable amount of the trademarks is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB94,114,000 (2019: nil) against the carrying amount of trademarks relating to acquisition of Cloudary. Sensitivity analysis is performed by management as of December 31, 2020, and the estimated changes in recoverable amount is considered to be immaterial.

(c) 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 December 31, 2020 according to IAS 36 "Impairment of assets". As of December 31, 2020, the recoverable amount of the copyrights is determined based on the value-in-use calculations. As of December 31, 2020, the Group made an impairment provision of approximately RMB53,121,000 (2019: nil) against the carrying amount of such copyrights. Sensitivity analysis is performed by management as of December 31, 2020, and the estimated changes in recoverable amount is considered to be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Investments in associates (a)	**248,206**	469,943
Investments in joint ventures (b)	**350,370**	493,608
	598,576	963,551

(a) Investments in associates

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**469,943**	307,794
Additions (Note a)	**–**	224,066
Impairment provision (Note b)	**(214,837)**	(17,400)
Share of net profit of associates	**3,002**	23,422
Share of other comprehensive loss of associates	**75**	(41)
Liquidation of an associate (Note c)	**–**	(70,666)
Currency translation differences	**(9,977)**	2,768
At the end of the year	**248,206**	469,943

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates (Continued)

Notes:

(a) During the year ended December 31, 2019, the Group's additions to investments in associates mainly comprised the following:

(i) a new investment in a media and entertainment company in the PRC of approximately RMB100,000,000. As of December 31, 2019, the Group's equity interest in this associate was approximately 11%. The Group has significant influence, but not control or joint control, over the investee company's management, since the Group has a representation seat on the investee company's board of directors, which enables the Group to participate in the financial and operation decision;

(ii) a new investment in an interactive movie and television content company in the PRC of approximately RMB45,000,000. As of December 31, 2019, the Group's equity interest in this associate was approximately 8.8%. The Group has significant influence, but not control, over the investee company's management, since the Group has a representation seat on the investee company's board of directors, which enables the Group to participate in the financial and operation decision; and

(iii) a new investment in an online reading company in Thailand of approximately RMB41,945,000 (Note 20).

(b) 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 FVLCD 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 year ended December 31, 2020 (2019: RMB17,400,000). 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.

(c) In January 2019, one of the Group's associate Ningbo Yuewen Yuandongli Culture Industry Investment LLP was liquidated. A net proceed of approximately RMB67,916,000 has been received due to the liquidation.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates (Continued)

Set out below is the major associate of the Group as of December 31, 2020, which, in the opinion of the directors, is material to the Group. The Group's major associate ("Munpia Co., Ltd." or referred to as "Munpia" hereafter) as listed below has ordinary shares which held directly by the Group; the country of incorporation or registration is also its principal place of business (i.e. South Korea).

Name	Date of incorporation	Particulars of issued shares held (RMB'000)	Place of incorporation	Percentage of ownership interest attributable to the Group December 31, 2020	2019	Principal activities
Munpia	December 27, 2012	668	South Korea	**25.22%**	25.22%	Online reading service

Summarised financial information of the Group's major associate

Set out below is the summarised financial information for Munpia which is accounted for using the equity method.

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Current assets	**229,910**	171,728
Non-current assets	**24,587**	33,877
Current liabilities	**25,802**	14,049
Non-current liabilities	**4,836**	4,913
Revenue	**244,175**	169,750
Profit for the year	**36,920**	23,975

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates (Continued)

Summarised financial information of the Group's major associate (Continued)

The Group determined that it does not have a controlling financial interest in above investee, but rather possesses significant influence. The associate as listed above is private company and there is no quoted market price available for its shares.

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of its interest in the associate.

	As of December 31, 2020 RMB'000	As of December 31, 2019 RMB'000
Net assets at the beginning of the year	**186,643**	101,712
Conversion of preferred shares to ordinary shares	**–**	62,106
Profit for the year	**36,920**	23,975
Other comprehensive income/(loss)	**296**	(1,150)
Net assets at the end of the year	**223,859**	186,643
Interest in an associate	**25.22%**	25.22%
Goodwill	**83,715**	83,715
Currency translation differences	**(4,331)**	3,272
Carrying value	**135,841**	134,058

As of December 31, 2020, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was approximately RMB112,365,000 (2019: RMB335,885,000).

There are no contingent liabilities relating to the Group's interest in the associates.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**493,608**	373,124
Additions (Note a)	**–**	85,187
Dividend from a joint venture	**(107,293)**	(90,000)
Impairment provision (Note b)	**(37,123)**	–
Share of net profit of joint ventures	**1,731**	135,086
Share of other comprehensive income/(loss) of joint ventures	**956**	(10,461)
Currency translation differences	**(1,509)**	672
At the end of the year	**350,370**	493,608

Notes:

(a) During the year ended December 31, 2019, the Group's additions to investments in joint ventures mainly comprised the following:

(i) a new investment in an intellectual property development company in the PRC of approximately RMB50,000,000. As of December 31, 2019, the Group's equity interest in this investee company was approximately 45%; and

(ii) a new investment in a software development and promotion company in Hong Kong of approximately RMB35,187,000. As of December 31, 2019, the Group's equity interest in this investee company was approximately 51%. The Group has significant influence, but not control, over the investee company's management.

(b) 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 indicators, and the respective recoverable amounts of investments are determined with reference to the higher of FVLCD 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 year ended December 31, 2020 (2019: nil). 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.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures (Continued)

Set out below are the major joint ventures of the Group as of December 31, 2020. The joint ventures as listed below have share capital consisting solely of ordinary shares, which held directly by the Group; the country of incorporation or registration is also its principal place of business.

				Percentage of ownership interest attributable to the Group As of December 31,		
Name	**Date of incorporation**	**Particulars of issued shares held (RMB'000)**	**Place of incorporation**	**2020**	2019	**Principal activities**
Beijing Jinjiang Networking Technology Co., Ltd. ("Jinjiang")	March 13, 2006	5,550	PRC	**50.00%**	50.00%	Online reading service
Lazy Online	March 27, 2012	12,309	PRC	**40.00%***	40.00%*	Online audio streaming service

*Note: As of December 31, 2020 and 2019, the Group owned 40% legal ownership interest of Lazy Online, while the Group used the equity method to account for the investment in Lazy Online by using the percentage of approximately 52.07%, the effective equity interest ownership (with Lazy Online's own preferred shares being accounted for as financial liabilities at fair value through profit or loss and excluded from the equity interest ownership).

On November 25, 2020, the Group entered into a letter of intent to sell all its equity interest in Lazy Online to Tencent Music Entertainment Group, a fellow subsidiary of the Group, at a total cash consideration of approximately RMB1,076,817,000. The investment in Lazy Online was classified as held for sale with carrying amount of nil. The sales agreement was subsequently entered into on January 15, 2021.

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures (Continued)

Summarised financial information of the Group's major joint ventures

Set out below is the summarised financial information for Jinjiang and Lazy Online, which are accounted for using the equity method.

	Jinjiang		Lazy Online	
	December 31, 2020 RMB'000	December 31, 2019 RMB'000	**November 25, 2020 RMB'000**	December 31, 2019 RMB'000
Current assets	**831,530**	627,864	**337,531**	334,036
Non-current assets	**1,413**	1,220	**137,938**	129,115
Current liabilities	**255,808**	173,777	**38,709**	49,236
Non-current liabilities	**–**	–	**783,155**	300,770
Revenue	**1,036,244**	830,724	**245,910**	332,313
Profit/(loss) for the year/period	**336,414**	295,007	**(459,540)**	(19,618)

Reconciliation of summarised financial information

Reconciliation of summarised financial information presented to the carrying amount of its interest in the joint venture.

	Jinjiang		Lazy Online	
	December 31, 2020 RMB'000	December 31, 2019 RMB'000	**November 25, 2020 RMB'000**	December 31, 2019 RMB'000
Net assets at the beginning of the year/period	**455,307**	340,300	**113,145**	132,763
Profit/(loss) for the year/period	**336,414**	295,007	**(459,540)**	(19,618)
Dividends	**(214,586)**	(180,000)	**–**	–
Net assets/(liabilities) at the end of the year/period	**577,135**	455,307	**(346,395)**	113,145
Interest in joint ventures	**50.00%**	50.00%	**52.07%**	52.07%
Goodwill	**2,447**	2,447	**97,761**	97,761
Other adjustment*	**–**	–	**82,591**	–
Carrying value	**291,015**	230,101	**–**	156,670

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures (Continued)

Reconciliation of summarised financial information (Continued)

*Note:

The other adjustment represents the share of losses not being recognised by the Group as the carrying amount of the investment in Lazy Online was reduced to zero as of November 25, 2020.

As of December 31, 2020, the carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method were approximately RMB59,355,000 (2019: RMB106,837,000).

There are no contingent liabilities relating to the Group's interest in the joint ventures.

(c) Joint operations

The Group participated in a number of TV series and film production and distribution projects with other parties and the Group also has joint operations with content distribution platforms for intellectual property monetisation operations. The principal place of business of the joint operations is in the PRC.

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss (Note 20)		
– Other financial assets at fair value through profit or loss	**915,318**	457,185
Financial assets at amortised cost:		
– Trade and notes receivables (Note 25)	**3,296,287**	3,366,078
– Deposits and other assets		
(current and non-current portions) (Note 22)	**287,752**	169,493
– Term deposits (Note 26)	**3,408,679**	415,752
– Cash and cash equivalents (Note 26)	**2,848,231**	5,931,849
– Restricted bank deposits (Note 26)	**–**	94,787
	10,756,267	10,435,144

19 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
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'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 30)	**1,396,102**	1,656,113
Financial liabilities at amortised cost:		
– Trade payables (Note 28)	**1,039,653**	1,020,676
– Lease liabilities (current and non-current portions) (Note 16)	**85,217**	89,929
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 29)	**879,199**	1,110,054
– Borrowings (current and non-current portions) (Note 27)	**1,245,938**	1,303,072
– Long-term payables (Note 17 (a))	**16,894**	–
	4,663,003	5,180,344

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

- debt instruments that do not qualify for measurement at either amortised cost or at FVOCI;
- 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.

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

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

Financial assets measured at FVPL include the following:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Included in non-current assets:		
Investments in redeemable shares of associates	**890,444**	429,842
Investments in unlisted entities	**12,000**	12,000
Investment in a listed entity	**12,874**	15,343
	915,318	457,185

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

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**457,185**	470,941
Additions (Note a)	**471,907**	58,287
Changes in fair value (Note 9)	**(12,929)**	(11,782)
Conversion of an associate's preferred shares to ordinary shares (Note b)	**–**	(23,000)
Settlement of forward foreign currency contract	**–**	(36,911)
Currency translation differences	**(845)**	(350)
At the end of the year	**915,318**	457,185

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

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

Notes:

(a) 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" due to board representation while investment in its preferred shares is accounted for as "financial assets at fair value through profit or loss".

In December 2020, the Group invested in redeemable convertible preferred shares of a third-party company that principally engaged in online literature and IP operation business at a purchase consideration of approximately USD72,324,000 (equivalent to approximately RMB471,907,000). In addition to cash of USD15,000,000 (equivalent to approximately RMB97,874,000), the total consideration also included an exchange of certain assets of the Group with a fair value of USD20,000,000 (equivalent to approximately RMB124,033,000) and a content license agreement of USD37,324,000 (equivalent to approximately RMB250,000,000) to the investee.

As of December 31, 2020, the aforementioned assets were not legally transferred, and therefore recognised as "other payables" in the consolidated statement of financial position. The content license agreement was initially recognised as "deferred revenue" in the consolidated statement of financial position and will be amortised over contract period.

(b) 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, due to the fact that the investee company was preparing for its initial public offering ("IPO"). As of December 31, 2020 and 2019, the Group held approximately 25.22% equity interests of the investee company, which was accounted for as investment in an associate (Note 18).

21 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered after more than 12 months	**26,840**	8,519
– to be recovered within 12 months	**161,679**	182,250
	188,519	190,769
Deferred tax liabilities:		
– to be recovered after more than 12 months	**(150,932)**	(317,003)
– to be recovered within 12 months	**(36,671)**	(5,628)
	(187,603)	(322,631)

21 DEFERRED INCOME TAXES (CONTINUED)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is 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
As of January 1, 2019	50,404	10,978	(338,015)	1,500	(79,116)	(354,249)
Recognised in the profit or loss	6,796	62,449	53,690	(1,500)	100,952	222,387
As of December 31, 2019	57,200	73,427	(284,325)	–	21,836	(131,862)
Recognised in the profit or loss	**16,641**	**(61,319)**	**128,077**	**38,742**	**10,637**	**132,778**
As of December 31, 2020	**73,841**	**12,108**	**(156,248)**	**38,742**	**32,473**	**916**

Deferred income tax assets are recognised for tax losses carried forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As of December 31, 2020, the Group did not recognise deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB148,214,000 (December 31, 2019: RMB216,200,000). These tax losses will expire from 2021 to 2025.

22 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Non-current:		
Deferred compensation cost (Note 30)	**213,292**	–
Prepayment to directors and writers (Note a)	**93,376**	131,778
Deposits and prepayments	**7,420**	13,246
	314,088	145,024
Current:		
Prepayment for production of television series and films	**152,599**	139,920
Amounts due from related parties (Note 37)	**125,733**	28,034
Receivable from co-producers on production of television series and films	**88,519**	137,434
Recoverable value-added tax	**82,044**	76,320
Deferred costs	**80,601**	48,406
Prepayments to vendors and online writers	**62,131**	140,522
Prepaid corporate income tax	**34,995**	9,529
Rental and other deposits	**25,119**	18,259
Prepayment to directors and writers (Note a)	**23,150**	22,264
Interests receivable	**21,851**	9,530
Prepayment for overseas licensed film rights	**6,440**	6,417
Royalty advances	**6,041**	7,612
Staff advances	**3,461**	9,850
Others	**22,124**	14,254
	734,808	668,351

Note:

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

The directors of the Company considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as of December 31, 2020 and 2019. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

23 INVENTORIES

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Adaptation rights and scripts	**510,718**	509,753
Raw materials	**9,251**	9,308
Work in progress	**9,947**	12,806
Inventories in warehouse	**74,573**	81,073
Inventories held with distributors on consignment	**76,609**	88,415
Others	**3,051**	7,026
	684,149	708,381
Less: provision for inventory obsolescence	**(112,319)**	(102,344)
	571,830	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 year ended December 31, 2020, the cost of inventories, including provision for inventory obsolescence, recognised as expense and included in "cost of revenues" amounted to approximately RMB284,003,000 (2019: RMB447,040,000).

During the year ended December 31, 2020, write-downs of inventories to net realisable value and reversal of write-downs of inventories that recognised as expense and included in "cost of revenues" were amounting to approximately RMB72,824,000 and RMB35,249,000 (2019: RMB61,186,000 and RMB60,898,000), respectively.

24 TELEVISION SERIES AND FILM RIGHTS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Television series and film rights		
– under production	**586,173**	655,723
– completed	**54,323**	451,948
	640,496	1,107,671

24 TELEVISION SERIES AND FILM RIGHTS (CONTINUED)

	Adaptation rights and scripts RMB'000	Under production RMB'000	Completed RMB'000	Total RMB'000
As of January 1, 2020	**–**	**655,723**	**451,948**	**1,107,671**
Additions	**–**	**744,562**	**–**	**744,562**
Transfer from under production to completed (Note b)	**–**	**(844,013)**	**844,013**	**–**
Transfer from adaptation rights and scripts to under production	**–**	**51,693**	**–**	**51,693**
Recognised in cost of revenue (Note a)	**–**	**(21,792)**	**(1,090,092)**	**(1,111,884)**
Recognised in other (losses)/gains, net (Note 9)	**–**	**–**	**(151,546)**	**(151,546)**
As of December 31, 2020 (Note b)	**–**	**586,173**	**54,323**	**640,496**
As of January 1, 2019	709,491	1,416,202	731,363	2,857,056
Transfer to inventories (Note c)	(709,491)	–	–	(709,491)
Additions	–	1,017,759	1,475	1,019,234
Transfer from under production to completed (Note b)	–	(1,853,167)	1,853,167	–
Transfer from adaptation rights and scripts to under production	–	74,929	–	74,929
Recognised in cost of revenue (Note a)	–	–	(2,134,057)	(2,134,057)
As of December 31, 2019 (Note b)	–	655,723	451,948	1,107,671

Notes:

(a) During the year ended December 31, 2020, impairment loss of approximately RMB249,255,000 was provided for the Group's completed television series and film rights (2019: RMB177,636,000).

(b) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

(c) Prior to 2019, the adaptation rights and scripts (the "Rights") were recorded in "Television series and film rights" for the purpose of production. In order to evolve business strategy, the Group has started to sell some of the Rights to customers. Hence, management considers it is more appropriate to reclassify the Rights from "Television series and film rights" to "Inventories".

25 TRADE AND NOTES RECEIVABLES

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Trade receivables	**3,456,635**	3,431,613
Notes receivable	**22,683**	697
	3,479,318	3,432,310
Less: allowance for impairment of trade receivables	**(183,031)**	(66,232)
	3,296,287	3,366,078

The Group applies the IFRS 9 simplified approach for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

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

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Trade and notes receivables		
– Up to 3 months	**2,380,858**	2,648,932
– 3 to 6 months	**99,594**	146,655
– 6 months to 1 year	**88,302**	308,289
– 1 to 2 years	**711,222**	239,494
– Over 2 years	**16,311**	22,708
	3,296,287	3,366,078

As of December 31, 2020, no trade receivables have been pledged for certain bank borrowings (2019: RMB324,230,000) (Note 27).

26 CASH AND CASH EQUIVALENTS, TERM DEPOSITS AND RESTRICTED BANK DEPOSITS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Bank balances, term deposits and restricted bank deposits	**6,256,910**	6,442,388
Less: Term deposits with initial term of over three months and less than one year	**3,408,679**	415,752
Restricted bank deposits (Note a)	**–**	94,787
Cash and cash equivalents	**2,848,231**	5,931,849
Maximum exposure to credit risk	**6,256,910**	6,442,388

Note:

(a) As of December 31, 2019, restricted deposits amounting to approximately RMB94,787,000 were pledged as securities for a bank borrowing. As of December 31, 2020, the restricted deposits have been released due to the fact that the secured bank borrowings have been repaid during the year (Note 27).

Bank balances and term deposits are denominated in the following currencies:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
USD	**1,771,680**	2,694,001
RMB	**4,065,152**	3,500,584
HKD	**407,105**	246,930
Thai Baht ("THB")	**11,790**	–
SGD	**1,183**	873
	6,256,910	6,442,388

Term deposits with initial terms of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as of December 31, 2020.

The effective interest rates of the term deposits with initial terms of over three months of the Group for the year ended December 31, 2020 are 1.76% (2019: 3.05%).

27 BORROWINGS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Non-current		
Unsecured		
RMB bank borrowings (Note a)	**300,000**	–
USD bank borrowings (Note a)	**391,494**	–
Total non-current borrowings	**691,494**	–
Current		
Unsecured		
RMB bank borrowings (Note a)	**554,444**	1,102,517
Secured		
RMB bank borrowings (Note b)	**–**	200,555
Total current borrowings	**554,444**	1,303,072
Total borrowings	**1,245,938**	1,303,072

Notes:

(a) As of December 31, 2020, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 variable-rate borrowings bore floating interest rates of People's Bank of China's loan prime rate plus 0.95% per annum and approximately RMB391,494,000 variable-rate borrowings bearing floating interest rate of London Inter-bank Offered Rate ("LIBOR") plus 1.10% per annum. The variable rate long-term bank borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and other subsidiaries of the Group. These borrowings will be repayable from April 19, 2022 to September 2, 2022. The other variable rate long-term bank borrowings of approximately RMB391,494,000 will be repayable in February 28, 2023.

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

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 year ended December 31, 2020.

As of December 31, 2019, the Group's unsecured short-term bank borrowings consist of approximately RMB902,517,000 fixed-rate borrowings, bearing interests ranging from approximately 3.60% to 5.22% per annum, among which approximately RMB272,517,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group. These fixed-rate borrowings had been repaid during the year ended December 31, 2020.

(b) As of December 31, 2019, the Group's secured short-term bank borrowings consist of approximately RMB200,555,000 borrowings bore floating interest rates of People's Bank of China's loan prime rate plus approximately 0.88% to 0.93% 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. 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 25). These secured short-term bank borrowings have been repaid during the year ended December 31, 2020.

27 BORROWINGS (CONTINUED)

As of December 31, 2020 and 2019, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Within 1 year	**554,444**	1,303,072
Between 1 and 2 years	**300,000**	–
Between 2 and 3 years	**391,494**	–
	1,245,938	1,303,072

Under the terms of the bank facility agreements entered into with the Bank of America and East West Bank, the Group is required to comply with the financial covenants. The Group has complied with all these covenants throughout the reporting period.

28 TRADE PAYABLES

Ageing analysis of trade payables based on recognition date at the end of each reporting period is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
– Up to 3 months	**746,347**	775,350
– 3 to 6 months	**116,074**	115,631
– 6 months to 1 year	**51,144**	46,293
– 1 to 2 years	**74,939**	43,990
– Over 2 years	**51,149**	39,412
	1,039,653	1,020,676

29 OTHER PAYABLES AND ACCRUALS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Advertising and marketing expense accruals	**212,563**	150,718
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	**209,405**	610,102
Staff costs and welfare accruals	**162,658**	226,972
Payables related to investment in financial asset at fair value through profit or loss (Note 20)	**124,033**	–
Payables to financial investors in TV programs and film production	**119,335**	122,566
Other tax payable	**96,551**	138,554
Payments received from co-producer (Note b)	**52,040**	82,282
Professional service fee payable	**30,171**	17,790
Outsourcing game development fee payable	**24,564**	28,733
Payables related to transfer of intangible asset	**12,491**	9,723
Special funds payable	**11,300**	14,109
Payables due to a non-controlling shareholder	**7,375**	12,689
Interests payable	**1,940**	1,677
Others	**85,282**	73,774
	1,149,708	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 agreements.

30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Non-current:		
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (Note a)	**1,037,924**	535,082
Current:		
Consideration payable related to the acquisition of Cloudary's non-controlling interests	**–**	500
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (Note a)	**358,178**	1,121,031
	358,178	1,121,531
	1,396,102	1,656,613

Note:

(a) On October 31, 2018, the Group entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. Pursuant to the share purchase agreement, the aggregate nominal consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to the earn out mechanism that set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the share purchase agreement. Accordingly, the earn out consideration for 2019 was adjusted under the earn out mechanism such that a total number of 3,444,870 consideration shares were issued and a total cash consideration of approximately RMB1,021,006,000 was paid in March 2020. The earn out consideration for 2018 was adjusted under the earn out mechanism such that no consideration shares were issued and a total cash consideration of approximately RMB1,192,777,000 was paid in March 2019.

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

For the year ended December 31, 2019, the Group recognised post-combination service expense of approximately RMB100,000,000 as employee benefits expenses in the "general and administrative expenses" of the consolidated statement of comprehensive (loss)/income.

For the year ended December 31, 2020, since 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, which is recognised for the period from the acquisition date of New Classics Media to December 31, 2019, in the amount of approximately RMB116,667,000 recognised it as a deduction of employee benefits expenses in the "general and administrative expenses" of the consolidated statement of comprehensive (loss)/income.

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

Note: (Continued)

(a) On August 27, 2020, the Group entered into a supplemental deed in relation to the amendment of the 2018 New Classics Media Share Purchase Agreement ("the supplemental SPA deed"), which was approved by the shareholders of the Group on December 9, 2020 and took effective from December 11, 2020 (the "Effective Date"). Pursuant to the supplemental SPA deed, the original earn out mechanism was revised. The original earn out consideration payable by the Group for the year ended December 31, 2020 under the original earn out mechanism (being 15,119,815 consideration shares and approximately RMB1,021,000,000 in cash) has been apportioned into five tranches and allocated to cover the five financial years of New Classics Media ending December 31, 2024, and is subject to additional conditions and adjustments set forth in the supplemental SPA deed.

Pursuant to the original share purchase agreement entered into in 2018, the contingent consideration payable of the Group shall be reduced by a deduction amount when net profit benchmark is not met. Such deduction amount shall be carried forward to and shall be applied to deduct the contingent consideration payable of the subsequent earn out years. As of the Effective Date, there remains an outstanding deduction amount which has not yet been applied for deduction. The outstanding deduction amount shall be paid back to the Company under the original mechanism and was recorded as contingent consideration receivable.

On the Effective Date, the consideration receivable under the original earn out mechanism were derecognised with fair value gain of approximately RMB858,370,000 charged to "other (losses)/gains, net" in the consolidated statement of comprehensive (loss)/income. The estimated consideration payable of approximately RMB1,396,102,000 arising from the new earn out mechanism (as defined in the supplemental SPA deed) was recognised as "contingent consideration payable" with loss of approximately RMB1,463,431,000 charged to "other (losses)/gains, net". The contingent consideration payable was initially and subsequently measured at fair value based on the valuation performed by the independent external valuation firm.

Under the supplemental SPA deed, founder SPV (as defined in the share purchase agreement entered into on August 13, 2018) must return to the Group an amount of approximately RMB216,358,000 on a one-time basis equal to the return of consideration under the original earn out mechanism, if he ceases or terminates his employment or breaches the deed of non-competition. As such, approximately RMB216,358,000 was considered and accounted as remuneration for his future services and was recognised as "deferred compensation cost" in the consolidated statement of financial position. For the period from the Effective Date to December 31, 2020, the compensation cost amounting to approximately RMB3,066,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive (loss)/income.

In addition, out of the total aforementioned consideration, an aggregate RMB20,000,000 was a contingent payment which would be automatically forfeited if a specific group of employment in New Classics Media terminates his/her employment. It was also considered and accounted as remuneration for his/her future service. The compensation cost amounting to approximately RMB4,000,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive (loss)/income per fiscal year.

31 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR RSU SCHEME

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
As of January 1, 2019	1,022,554,246	649	16,456,555	(21)	16,457,183
Transfer of vested RSUs	–	–	(48,918)	2	(48,916)
Repurchase and cancellation of shares (Note a)	(10,217,400)	(7)	(245,828)	–	(245,835)
As of December 31, 2019	1,012,336,846	642	16,161,809	(19)	16,162,432
Transfer of vested RSUs	**–**	**–**	**9**	**10**	**19**
Issue of ordinary shares as consideration for a business combination (Note 30)	**3,444,870**	**3**	**97,870**	**–**	**97,873**
As of December 31, 2020	**1,015,781,716**	**645**	**16,259,688**	**(9)**	**16,260,324**

Note:

(a) During the year ended December 31, 2019, the Group repurchased a total of 10,217,400 ordinary shares that listed on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was approximately HKD273,031,000 (approximately RMB245,835,000). As of December 31, 2019, all these above mentioned repurchased ordinary shares had been cancelled and deducted from the share capital and share premium within shareholders' equity.

32 OTHER RESERVES

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option on non-controlling interests RMB'000	Shares-based compensation reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Total RMB'000
As of January 1, 2020	**34,127**	**352,047**	**10,964**	**642,157**	**131,923**	**(35,831)**	**1,135,387**
Currency translation differences	**–**	**(33,364)**	**–**	**–**	**–**	**–**	**(33,364)**
Share-based compensation expenses (Note 33)	**–**	**–**	**–**	**120,204**	**–**	**–**	**120,204**
Profit appropriations to statutory reserves (Note a)	**–**	**–**	**–**	**–**	**49,884**	**–**	**49,884**
Acquisition of non-controlling interests (Note b)	**–**	**–**	**–**	**–**	**–**	**(4,954)**	**(4,954)**
Share of other comprehensive income of associates and a joint venture	**–**	**1,031**	**–**	**–**	**–**	**–**	**1,031**
As of December 31, 2020	**34,127**	**319,714**	**10,964**	**762,361**	**181,807**	**(40,785)**	**1,268,188**
As of January 1, 2019	34,127	296,835	10,964	500,588	86,573	(30,937)	898,150
Currency translation differences	–	65,714	–	–	–	–	65,714
Share-based compensation expenses (Note 33)	–	–	–	141,569	–	–	141,569
Profit appropriations to statutory reserves (Note a)	–	–	–	–	45,350	–	45,350
Acquisition of non-controlling interests (Note b)	–	–	–	–	–	(4,894)	(4,894)
Share of other comprehensive loss of associates and joint ventures	–	(10,502)	–	–	–	–	(10,502)
As of December 31, 2019	34,127	352,047	10,964	642,157	131,923	(35,831)	1,135,387

32 OTHER RESERVES (CONTINUED)

Notes:

(a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) During the year ended December 31, 2020, the Group has acquired non-controlling interests in one of the Group's non-wholly owned subsidiaries, and the aggregate net excess of consideration over the carrying amount of acquired net non-controlling interests, being approximately RMB4,954,000, were recognised directly in equity.

During the year ended December 31, 2019, the Group has acquired non-controlling interests in the Group's three non-wholly owned subsidiaries, and the aggregate net excess of considerations over the carrying amounts of acquired net non-controlling interests, being approximately RMB4,894,000, were recognised directly in equity.

33 SHARE-BASED PAYMENTS

(a) Share-based compensation plan of the Group

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.

33 SHARE-BASED PAYMENTS (CONTINUED)

(a) Share-based compensation plan of the Group (Continued)

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

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

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

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

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

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

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

33 SHARE-BASED PAYMENTS (CONTINUED)

(a) Share-based compensation plan of the Group (Continued)

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2020	**15,214,100**
Granted	**5,736,993**
Forfeited	**(2,485,947)**
Vested	**(3,851,700)**
Outstanding balance as of December 31, 2020	**14,613,446**
As of January 1, 2019	17,477,000
Granted	5,690,000
Forfeited	(1,293,500)
Vested	(6,659,400)
Outstanding balance as of December 31, 2019	15,214,100

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

(b) Expected Retention Rate

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive (loss)/income. As of December 31, 2020, the Expected Retention Rate was assessed to be 100%.

33 SHARE-BASED PAYMENTS (CONTINUED)

(c) Shares held for RSU scheme

The Company has set up two structured entities ("RSUs Scheme Trusts"), namely Link Apex Holdings Limited and Peak Income Group Limited, which are solely for the purpose of administering and holding the Company's shares for the RSU scheme. Pursuant to a resolution passed by the Board of Directors of the Company on October 10, 2017, the Company issued 40,409,091 ordinary shares to the RSU scheme Trusts at a par value of USD0.0001 each, being the ordinary shares underlying the Company's RSUs Scheme. In addition, the Company has entered into a trust deed with an independent trustee (the "RSU Trustee") on October 10, 2017, pursuant to which the RSU Trustee shall act as the administrator of the Company's RSUs Scheme.

The Company has the power to direct the relevant activities of the RSUs Scheme Trusts and it has the ability to use its power over the RSUs Scheme Trusts to affect its exposure to returns. Therefore, the assets and liabilities of the RSUs Scheme Trusts are included in the Group's consolidated statement of financial position and the ordinary shares held for the Company's RSU scheme were regarded as treasury shares and presented as a deduction in equity as "Shares held for RSU scheme".

As of December 31, 2020, the Company has appointed a professional and independent trustee, BOCI Prudential Trustee, as the Trustee to assist with the administration and vesting of RSUs granted pursuant to the 2020 Restricted Share Unit Scheme.

34 CONTINGENCIES

The Group did not have any other material contingent liabilities as of December 31, 2020 (2019: nil).

35 CASH FLOW INFORMATION

(a) Cash generated from operating activities

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
(Loss)/profit for the year	**(4,500,197)**	1,112,134
Adjustments for:		
Income tax (benefit)/expense	**(38,523)**	67,663
Compensation charges for post-combination services	**(109,603)**	100,000
Share-based compensation expenses	**120,204**	141,569
Depreciation of property, plant and equipment	**23,703**	22,306
Amortisation of intangible assets	**215,948**	174,729
Loss/(gain) on disposals of property, plant and equipment	**353**	(206)
Provision for impairment losses on financial assets	**130,203**	24,630
Provision for inventory obsolescence	**72,824**	61,186
Impairment loss of goodwill	**4,015,854**	–
Impairment provision for investments in associates and a joint venture	**251,960**	17,400
Impairment loss of other intangible assets	**537,086**	–
Impairment loss of television series and film rights	**249,255**	177,636
Share of net profit of investments accounted for using equity method	**(4,733)**	(158,508)
Gain on liquidation or disposal of subsidiaries	**–**	(7,464)
Interest income on bank deposits	**(116,315)**	(157,539)
Fair value loss on financial assets at fair value through profit or loss	**12,929**	11,782
Fair value gain on contingent consideration payable	**(858,870)**	(273,003)
Loss from modification of contingent consideration payable	**1,463,431**	–
Interest expense	**64,195**	166,521
Guarantee expense	**–**	549
Foreign exchange losses, net	**1,107**	747
Depreciation charge of right-of-use assets	**62,268**	61,451
Dividend income	**–**	(196)
Changes in operating assets and liabilities:		
Increase in trade and notes receivables	**(44,357)**	(1,552,617)
Increase in inventories	**(38,617)**	(537,530)
Decrease in television series and film rights	**217,920**	1,571,749
Increase in prepayments, deposits and other assets	**(56,392)**	(129,398)
Increase/(decrease) in trade payables	**18,977**	(204,611)
Decrease in deferred revenue	**(89,492)**	(293,426)
(Decrease)/increase in other payables and accruals	**(350,186)**	544,491
Net cash provided by operating activities	**1,250,932**	942,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

35 CASH FLOW INFORMATION (CONTINUED)

(b) Non-cash investing and financing activities

Other than the investment made in redeemable convertible preferred shares of a third-party company that principally engaged in online literature business in December 2020, as described in Note 20 (a), there were no material non-cash transactions during the year ended December 31, 2020.

(c) Net debt reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (non-current) RMB'000	Borrowings (current) RMB'000	Interest payable RMB'000	Leases (current and non-current) RMB'000	Payables to financial investors in TV programs and film production RMB'000	Loan payable due to a related party RMB'000	Consideration payable related to the acquisition of Cloudary's non-controlling interests (current) RMB'000	Total RMB'000
As of January 1, 2020	**–**	**1,303,072**	**1,677**	**89,929**	**122,566**	**–**	**500**	**1,517,744**
Cash flows	**691,494**	**(748,628)**	**(67,415)**	**(57,880)**	**(3,231)**	**–**	**–**	**(185,660)**
Other non-cash movements	**–**	**–**	**67,678**	**53,168**	**–**	**–**	**(500)**	**120,346**
As of December 31, 2020	**691,494**	**554,444**	**1,940**	**85,217**	**119,335**	**–**	**–**	**1,452,430**
As of January 1, 2019	380,000	1,385,445	5,203	135,436	275,876	700,000	500	2,882,460
Cash flows	(180,000)	(282,373)	(174,848)	(65,849)	(164,690)	(700,000)	–	(1,567,760)
Other non-cash movements	(200,000)	200,000	171,322	20,342	11,380	–	–	203,044
As of December 31, 2019	–	1,303,072	1,677	89,929	122,566	–	500	1,517,744

36 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

Particulars of the principal subsidiaries of the Group as of the date of these consolidated financial statements and as of December 31, 2020 are set out below:

Company name	Place of incorporation	Date of incorporation	Registered capital	Percentage of attributable equity interest	Principal activities
Shanghai Yuewen Information Technology Co., Ltd. (“上海閱文信息技術有限公司”)	PRC	April 2, 2014	RMB10,000,000	100.00%	Online reading business, intellectual property operations and online advertising
Shanghai Xuanting Entertainment Information Technology Co., Ltd. (“上海玄霆娛樂信息科技有限公司”)	PRC	August 26, 2004	RMB108,000,000	100.00%	Online reading business
Tianjin Zhongzhi Bowen Book Co., Ltd. (“天津中智博文圖書有限公司”)	PRC	March 1, 2010	RMB11,626,440	89.55%	Physical book business
Xiaoxiang College (Tianjin) Culture Development Co., Ltd. (“瀟湘書院（天津）文化發展有限公司”)	PRC	June 8, 2010	RMB10,000,000	100.00%	Online reading business
Tianjin Huawen Tianxia Book Co., Ltd. (“天津華文天下圖書有限公司”)	PRC	June 23, 2009	RMB10,204,100	100.00%	Physical book business
Shengyun Information Technology (Tianjin) Co., Ltd. (“盛雲信息技術（天津）有限公司”)	PRC	June 13, 2013	USD30,000,000	100.00%	Intellectual property management
Beijing Hongxiu Tianxiang Technology Development Co., Ltd. (“北京紅袖添香科技發展有限公司”)	PRC	March 20, 2006	RMB10,000,000	100.00%	Online reading business
Beijing Wangwen Xinyue Technology Co., Ltd. (“北京網文欣閱科技有限公司”)	PRC	March 12, 2010	RMB10,000,000	100.00%	Online reading business
Shanghai Hongwen Networking Technology Co., Ltd. (“上海宏文網絡科技有限公司”)	PRC	October 22, 2008	RMB10,000,000	100.00%	Online reading business, intellectual property operations and online advertising
New Classics Television Entertainment Investment Company Limited (“新麗電視文化投資有限公司”)	PRC	September 24, 2008	RMB50,000,000	100.00%	Television series and film production
New Classics Movie (Zhejiang) Company Limited (“新麗電影（浙江）有限公司”)	PRC	January 4, 2010	RMB10,000,000	100.00%	Television series and film production
Shanghai Yuewen Films Culture Communication Company Limited (“上海閱文影視文化傳播有限公司”)	PRC	January 24, 2017	RMB10,000,000	100.00%	Television series and film production
Yueting Information Technology (Shanghai) Co., Ltd. (“閱霆信息技術（上海）有限公司”)	PRC	May 27, 2008	USD 100,000,000	100.00%	Intellectual property management

Note:

(a) The English names of the subsidiaries represent the best effort by the Company’s management to translate their Chinese names, as these subsidiaries do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

37 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.

Names of the major related parties	Nature of relationship
Tencent Holdings Limited	Ultimate holding company
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Tencent Cloud Computing (Beijing) Company Limited	Fellow subsidiary
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Tencent Film Culture Co., Ltd.	Fellow subsidiary
Shenzhen Tencent Animation and Comics Co., Ltd.	Fellow subsidiary
Beijing BIZCOM Technology Company Limited	Fellow subsidiary
Tencent Music Entertainment Group	Fellow subsidiary
Beijing Tencent Culture Media Co., Ltd.	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Tencent Technology (Chengdu) Company Limited	Fellow subsidiary
Tencent Mobility Limited	Fellow subsidiary
Shenzhen Shiji Kaixuan Technology Company Limited	Fellow subsidiary
Shenzhen Lazy Online Technology Co., Ltd.	Joint venture of the Group
Beijing Jinjiang Networking Technology Co., Ltd.	Joint venture of the Group
Khorgas Fanrenxianjie Media Co., Ltd.	Joint venture of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group
Chongqing Caiseqianbi Animation Design Co., Ltd.	Associate of the Group
Munpia Inc.	Associate of the Group
Hangzhou Wawayu Animation Design Co., Ltd.	Associate of the Group
Jiangsu Maoyan 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
Shanghai Youhug Media Co., Ltd.	Associate of the ultimate holding company
Tianjin Maoyan Weiying Media Co., Ltd.	Associate of the ultimate holding company

37 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fellow subsidiaries	**1,427,055**	1,905,567
Associates of the ultimate holding company (Note)	**40,095**	36,525
Associates of the Group	**10,800**	9,615
Joint ventures of the Group	**24,166**	57,550
	1,502,116	2,009,257

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fellow subsidiaries	**278,723**	309,884
Associates of the ultimate holding company	**10,363**	47,002
Associates of the Group	**65,174**	22,368
Joint ventures of the Group	**5,634**	4,375
	359,894	383,629

(c) Interest expense

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fellow subsidiary	**–**	74,581

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

Note:

For the related party transactions disclosed in Note 37, 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.

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Acquisition of equity interest in Ookbee U Company Limited ("OBU")

In September 2019, Cloudary Holdings Limited ("Cloudary HK"), a wholly-owned subsidiary of the Group, has entered into an acquisition agreement with Kapok Tree Investment Limited ("Kapok Tree"), a wholly-owned subsidiary of Tencent, pursuant to which Cloudary HK acquired approximately 10.24% ordinary shares of OBU from Kapok Tree with a total consideration of approximately USD3,947,000 (equivalent to approximately RMB27,841,000).

(e) 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 December 31, 2020, the Group has not utilised any loan facility provided by the fellow subsidiary.

(f) Balances with related parties

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries (Note)	**1,200,975**	1,375,305
Associates of the ultimate holding company	**19,327**	14,912
Associates of the Group	**2,000**	9,891
Joint ventures of the Group	**8,446**	8,330
	1,230,748	1,408,438
Prepayments, deposits and other receivables		
Fellow subsidiaries	**120,078**	20,342
Associates of the ultimate holding company	**3,974**	6,061
Associates of the Group	**1,127**	1,631
Joint ventures of the Group	**554**	–
	125,733	28,034

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.

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

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Balances with related parties (Continued)

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	**25,929**	20,832
Associates of the ultimate holding company	**3,019**	321
Associates of the Group	**192**	1,669
Joint ventures of the Group	**3,288**	947
	32,428	23,769

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Other payables and accruals		
Fellow subsidiaries	**65,865**	213,502
Associates of the ultimate holding company	**74,944**	1,205
Associates of the Group	**2**	–
	140,811	214,707

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

(g) Key management personnel compensations

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and bonuses	**5,777**	12,649
Other social security costs, housing benefits and other employee benefits	**142**	333
Pension costs-defined contribution plans	**16**	204
Share-based compensation expenses	**3,012**	3,789
	8,947	16,975

38 SUBSEQUENT EVENTS

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

On January 15, 2021, the Group entered into a sales agreement to sell all its equity interest in Lazy Online at a total consideration of approximately RMB1,076,817,000. Upon the completion of the transaction in March 2021, the Group no longer holds any equity interest in the Lazy Online.

39 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	**149**	514
Investments in subsidiaries	**10,290,379**	14,407,931
Prepayments, deposits and other assets	**214,875**	1,701
Right-of-use assets	**170**	907
	10,505,573	14,411,053
Current assets		
Prepayments, deposits and other assets	**2,623**	4,091
Amounts due from subsidiaries	**3,324,973**	2,613,111
Term deposits	**896,845**	161,240
Cash and cash equivalents	**400,601**	2,487,302
	4,625,042	5,265,744
Total assets	**15,130,615**	19,676,797
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**645**	642
Shares held for RSU scheme	**(9)**	(19)
Share premium	**16,503,077**	16,405,198
Other reserves	**793,050**	747,563
(Accumulated losses)/retained earnings	**(4,399,015)**	482,638
Total equity	**12,897,748**	17,636,022

39 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Financial position of the Company (Continued)

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
LIABILITIES		
Non-current liabilities		
Borrowings	**391,494**	–
Lease liabilities	**–**	188
Financial liabilities at fair value through profit or loss	**1,037,924**	535,082
	1,429,418	535,270
Current liabilities		
Lease liabilities	**110**	672
Other payables and accruals	**445,161**	383,802
Financial liabilities at fair value through profit or loss	**358,178**	1,121,031
	803,449	1,505,505
Total liabilities	**2,232,867**	2,040,775
Total equity and liabilities	**15,130,615**	19,676,797

The statement of financial position of the Company was approved by the Board of Directors on March 23, 2021 and was signed on its behalf.

Director

Director

39 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Other reserves RMB'000	(Accumulated losses)/ retained earnings RMB'000
As of January 1, 2020	**747,563**	**482,638**
Comprehensive loss		
Loss for the year	**–**	**(4,881,653)**
Other comprehensive loss		
– Currency translation differences	**(74,717)**	**–**
Total comprehensive loss for the year	**(74,717)**	**(4,881,653)**
Transaction with owners		
Share-based compensation expenses (Note 33)	**120,204**	**–**
Total transactions with owners recognised directly in equity for the year	**120,204**	**–**
As of December 31, 2020	**793,050**	**(4,399,015)**

	Other reserves RMB'000	Retained earnings RMB'000
As of January 1, 2019	589,499	145,695
Comprehensive income		
Profit for the year	–	336,943
Other comprehensive income		
– Currency translation differences	16,495	–
Total comprehensive income for the year	16,495	336,943
Transaction with owners		
Share-based compensation expenses (Note 33)	141,569	–
Total transactions with owners recognised directly in equity for the year	141,569	–
As of December 31, 2019	747,563	482,638

DEFINITIONS

"2018 NCM Share Purchase Agreement"	:	the share purchase agreement entered the Founder into among the Company, Tencent Mobility, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 13, 2018, in relation to, among other things, the purchase of 100% equity interests of the NCM Holdings by the Company from the Vendors;
"Adaptation Rights"	:	the rights for adaptation of the Literary Work into movies and television series by real characters, animated movies, games, reality products developed by the adapted products and trademarks of the Literary Work (including sub-licensing rights thereof);
"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;
"AGM"	:	the forthcoming annual general meeting of the Company to be held on May 24, 2021;
"Articles of Association"	:	the amended and restated articles of association of the Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time;
"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;
"Award Agreement(s)"	:	the agreements evidencing the grant of the Awards;
"Board"	:	the board of Directors of the Company;
"Board Committees"	:	the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee of the Board of the Company;
"C-Hero Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
"Cang Qiong Entertainment"	:	Cang Qiong Entertainment (Tianjin) Culture Communications Co., Ltd. (蒼穹互娛(天津)文化傳播有限公司), a company established in the PRC, an associate of Tencent and a connected person of the Company;

DEFINITIONS

"Catalog"	:	the Guidance Catalog of Industries for Foreign Investment;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report;
"China Reading HK"	:	China Reading (Hong Kong) Limited（中國閱讀（香港）有限公司）, a limited liability company incorporated in Hong Kong on April 24, 2013, and our directly wholly-owned subsidiary;
"Cloudary"	:	Cloudary Corporation (formerly known as Shanda Literature Corporation), an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 25, 2011, and our directly wholly-owned subsidiary;
"Cloudary HK"	:	Cloudary Holdings Limited（閱文文學有限公司, formerly known as Shanda Literature Limited), a limited liability company incorporated in Hong Kong on September 28, 2007, and our indirectly wholly-owned subsidiary;
"Chief Executive Officer"	:	the chief executive officer of the Company;
"Company", "our Company", "the Company" or "China Literature"	:	China Literature Limited（閱文集團）(formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"connected person(s)"	:	has the meaning ascribed to it under the Listing Rules;
"Consolidated Affiliated Entities"	:	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries;
"Continuing Connected Transactions"	:	the continuing connected transactions of the Group during the year ended 31 December 2020;
"Contractual Arrangements"	:	the series of contractual arrangements entered into by, among others, our Company, the WFOEs and the PRC Holdcos, namely Wen VIE and NCM VIE;
"Contractual Arrangements Date"	:	in the case of the Wen VIE, June 27, 2017; and in the case of the NCM VIE, August 13, 2018;
"Controlling Shareholders"	:	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Tencent, THL A13, Qinghai Lake and Tencent Mobility;

DEFINITIONS

"Ding Dong-D Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
"Director(s)"	:	the director(s) of our Company;
"Equity Pledge Agreements"	:	the equity pledge agreements entered into between the WFOEs, the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, where the Registered Shareholder(s) agreed to pledge all their respective equity interests in the PRC Holdco(s) that they owned, including any interest or dividend paid for the Shares, to the WFOE(s)as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts;
"Exclusive Business Cooperation Agreements"	:	the exclusive business cooperation agreements that each of the PRC Holdco(s) entered into with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their/its exclusive provider of technical support, consultation and other services;
"Exclusive Option Agreements"	:	the exclusive option agreements entered into among the WFOE(s), the PRC Holder(s) and the Registered Shareholders on the Contractual Arrangements Date, pursuant to which, the WFOE(s) have the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred; and in the case of the NCM VIE, the lowest price as permitted by PRC laws);
"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;
"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China;
"HKD"	:	the lawful currency of Hong Kong;

DEFINITIONS

"IEG"	:	interactive entertainment group;
"IP"	:	intellectual property;
"IP Cooperation CCTs"	:	the cooperation between Shanghai Yueting and Tencent Computer under the IP Cooperation Framework Agreement;
"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;
"Linzhi Tencent"	:	Linzhi Tencent Technology Company Ltd.(林芝騰訊科技有限公司), an indirect subsidiary of Tencent established in the PRC on October 26, 2015, the equity interest of which is ultimately held by PRC nationals;
"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;
"Literary Work"	:	an original literary work, being the subject matter in relation to the license granted by Shanghai Yuewen to Cang Qiong Entertainment pursuant to the IP License Agreement;
"Litong"	:	Shenzhen Litong Industry Investment Fund Company Limited(深圳市利通產業投資基金有限公司), a company established in the PRC on August 5, 2013, which is a shareholder of each of the PRC Holdcos and a subsidiary of Tencent;
"Main Board"	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;

"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Classics Media" or "NCM"	:	New Classics Media Holdings Limited, previously known as "Qiandao Lake Holdings Limited", a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series;
"New Classics Media Corporation"	:	New Classics Media Corporation (新麗傳媒集團有限公司), a company established in the PRC on February 7, 2007, having its registered address at C1-018-A, Hengdian Film and Television Industry Experimental Zone, Zhejiang;
"New Intergroup Agreements" and each a "New Intergroup Agreement"	:	the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our PRC Holdcos and any member of our Group;
"Ningbo Meishan Yuebao"	:	Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保税港區閱寶投資有限公司), a company established in the PRC on April 25, 2017 and a shareholder of each of the PRC Holdcos;
"Online Platform Cooperation CCTs"	:	the cooperation entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) under the Online Platform Cooperation Framework Agreement;
"Powers of Attorney"	:	the powers of attorney executed by the Registered Shareholders on the Contractual Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdco(s);
the "PRC" or "China"	:	the People's Republic of China;
"PRC Holdcos"	:	in the case of the Wen VIE, Shanghai Hongwen and Shanghai Yuewen; and in the case of the NCM VIE, New Classics Media Corporation;

DEFINITIONS

"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"Qinghai Lake"	:	Qinghai Lake Investment Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands on July 1, 2014 as an investment vehicle and a wholly-owned subsidiary of Tencent;
"Qisheng Culture Communication"	:	Qisheng Culture Communication (Tianjin) Co., Ltd.(奇盛文化傳播(天津)有限公司), a company established in the PRC on July 3, 2014, and our indirectly wholly-owned subsidiary;
"Registered Shareholders"	:	in the case of the Wen VIE, the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao, which own each of the PRC Holdcos as to 65.38% and 34.62%, respectively; and in the case of the NCM VIE, the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, which own the PRC Holdco as to 40.0%, 6.7%, 34.0%, 15.3% and 4.1%;
"Relevant Period" or "Reporting Period"	:	the year ended December 31, 2020;
"Restricted Period"	:	the restricted period of RSUs which commences 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;
"Retained Tencent Group"	:	Tencent and its subsidiaries, excluding our Group;
"Retained Tencent Group Platforms"	:	the self-operated channels on Tencent platforms that distribute our literary works through under the Online Platform Cooperation CCTs;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);
"RSU Plan"	:	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014;
"SFO"	:	the Securities and Futures Ordinance;

DEFINITIONS

"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, and one of the PRC Holdcos;
"Shanghai Qiwen"	:	Shanghai Qiwen Information Technology Co., Ltd. (上海啟聞信息技術有限公司), a company established in the PRC on April 16, 2013 and one of our Consolidated Affiliated Entities;
"Shanghai Xuanting"	:	Shanghai Xuanting Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息科技有限公司), a company established in the PRC on August 26, 2004 and one of our Consolidated Affiliated Entities;
"Shanghai Yuechao"	:	Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and our indirectly wholly-owned subsidiary;
"Shanghai Yuehuo"	:	Shanghai Yuehuo Information Technology Co., Ltd. (上海閱活信息科技有限公司), a company established in the PRC on November 11, 2016 and one of our Consolidated Affiliated Entities;
"Shanghai Yueting"	:	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司，previously known as Shengting Information Technology (Shanghai) Co., Ltd.), a company established in the PRC on May 27, 2008, and our indirectly wholly-owned subsidiary;
"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, and one of our PRC Holdcos;
"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);
"Shengyun Information Technology"	:	Shengyun Information Technology (Tianjin) Co., Ltd. (盛雲信息技術(天津)有限公司), a company established in the PRC on June 13, 2013, and our indirectly wholly-owned subsidiary;
"Shenzhen Lazy Online"	:	Shenzhen Lazy Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012 and one of our Consolidated Affiliated Entities;

DEFINITIONS

"Shiji Kaixuan"	:	Shenzhen Shiji Kaixuan Technology Limited (深圳市世紀凱旋科技有限公司), an indirect subsidiary of Tencent incorporated with limited liability in PRC in January 13, 2004, the equity interest of which is held by PRC nationals;
"Sogou"	:	Sogou Inc., a company incorporated in the Cayman Islands, whose American Depositary Shares are listed on the New York Stock Exchange under the symbol "SOGO", an associate of Tencent and a connected person of the Company;
"Sogou Group"	:	certain subsidiaries or variable interest entities of Sogou, including Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京搜狗信息服務有限公司), Beijing Sogou Network Technology Co., Ltd. (北京搜狗網絡技術有限公司), Tianjin Sogou Network Technology Co., Ltd. (天津搜狗網絡技術有限公司), Chengdu Easypay Technology Co., Ltd. (成都吉易付科技有限公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息技術有限公司);
"Sogou Technology"	:	Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Sogou;
"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;
"Supplemental SPA Deed"	:	the supplemental deed entered into between the Company, Mr. Huayi Cao, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 27, 2020 in relation to, among others the amendment of the 2018 NCM Share Purchase Agreement;
"Suzhou Jingwei"	:	Suzhou Jingwei Network Information Technology Co., Ltd. (蘇州經緯網絡信息科技有限公司), a company established in the PRC on July 25, 2007 and one of our Consolidated Affiliated Entities;
"Tencent"	:	Tencent Holdings Limited, the Controlling Shareholder, 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 (stock code: 700);

DEFINITIONS

"Tencent Computer"	:	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent;
"Tencent Group"	:	Tencent and its subsidiaries from time to time, including our Group;
"Tencent Mobility"	:	Tencent Mobility Limited, a company incorporated with limited liability in Hong Kong, a wholly owned subsidiary of Tencent and a connected person of the Company;
"Tencent Pictures"	:	Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary and associate of Tencent and a connected person of the Company;
"Tenpay"	:	Tenpay Payment Technology Co., Ltd. (財付通支付科技有限公司), a company established in the PRC and a subsidiary of Tencent Computer;
"THL A13"	:	THL A13 Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands as an investment vehicle on February 1, 2013 and a wholly-owned subsidiary of Tencent;
"Tianjin Huawen Tianxia Book"	:	Tianjin Huawen Tianxia Book Co., Ltd. (天津華文天下圖書有限公司), a company established in the PRC on June 23, 2009 and one of our Consolidated Affiliated Entities;
"Tianjin Under Banyan"	:	Tianjin Under Banyan Information Technology Co., Ltd. (天津榕樹下信息技術有限公司), a company established in the PRC on November 17, 2009 and one of our Consolidated Affiliated Entities;
"Tianjin Zhongzhi Bowen Book"	:	Tianjin Zhongzhi Bowen Book Co., Ltd. (天津中智博文圖書有限公司), a company established in the PRC on March 1, 2010 and one of our Consolidated Affiliated Entities;
"Tianwen Kadokawa"	:	Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd., a company established in Guangzhou, PRC, which is owned over 30% by Tencent and therefore is an associate of Tencent and a connected person of the Company;

DEFINITIONS

"USD"	:	the lawful currency of the United States;
"Wangwen Xinyue"	:	Beijing Wangwen Xinyue Technology Co., Ltd.（北京網文欣閱科技有限公司）, a company established in the PRC on March 12, 2010 and one of our Consolidated Affiliated Entities;
"WFOE(s)"	:	in the case of the Wen VIE, Shanghai Yueting and Shanghai Yuechao, and in the case of the NCM VIE, Xinli (Tianjin);
"Xiaoxiang College"	:	Xiaoxiang College (Tianjin) Culture Development Co., Ltd.（瀟湘書院（天津）文化發展有限公司）, a company established in the PRC on June 8, 2010 and one of our Consolidated Affiliated Entities;
"Xinli (Tianjin)"	:	Xinli (Tianjin) Media Technology Co., Ltd.（新麗（天津）傳媒科技有限公司）, a company incorporated with limited liability in PRC and an indirect wholly owned subsidiary of New classics Media;
"Xinli TV"	:	Xinli TV Culture Investment Co., Ltd.（新麗電視文化投資有限公司）, a company established in the PRC with limited liability;
"Xishi Investment"	:	Shanghai Xishi Investment Management Enterprise (Limited Partnership)（上海喜詩投資管理企業（有限合夥））, a limited partnership established in PRC on March 10, 2011, the limited partnership interest of which were held by the Mr. Huayi Cao and the individual shareholders of the X-Poem Limited who are PRC nationals;
"X-Poem Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
"Yuewen Film"	:	Shanghai Yuewen Film and Television Culture Communication Co., Ltd.（上海閱文影視文化傳播有限公司）, one of the Consolidated Affiliated Entities of the Company, and a company established in the PRC with limited liability.

Notes:

For ease of reference, the names of the PRC established companies or entities have been included in this annual report in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

阅文集团

CHINA LITERATURE