



China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

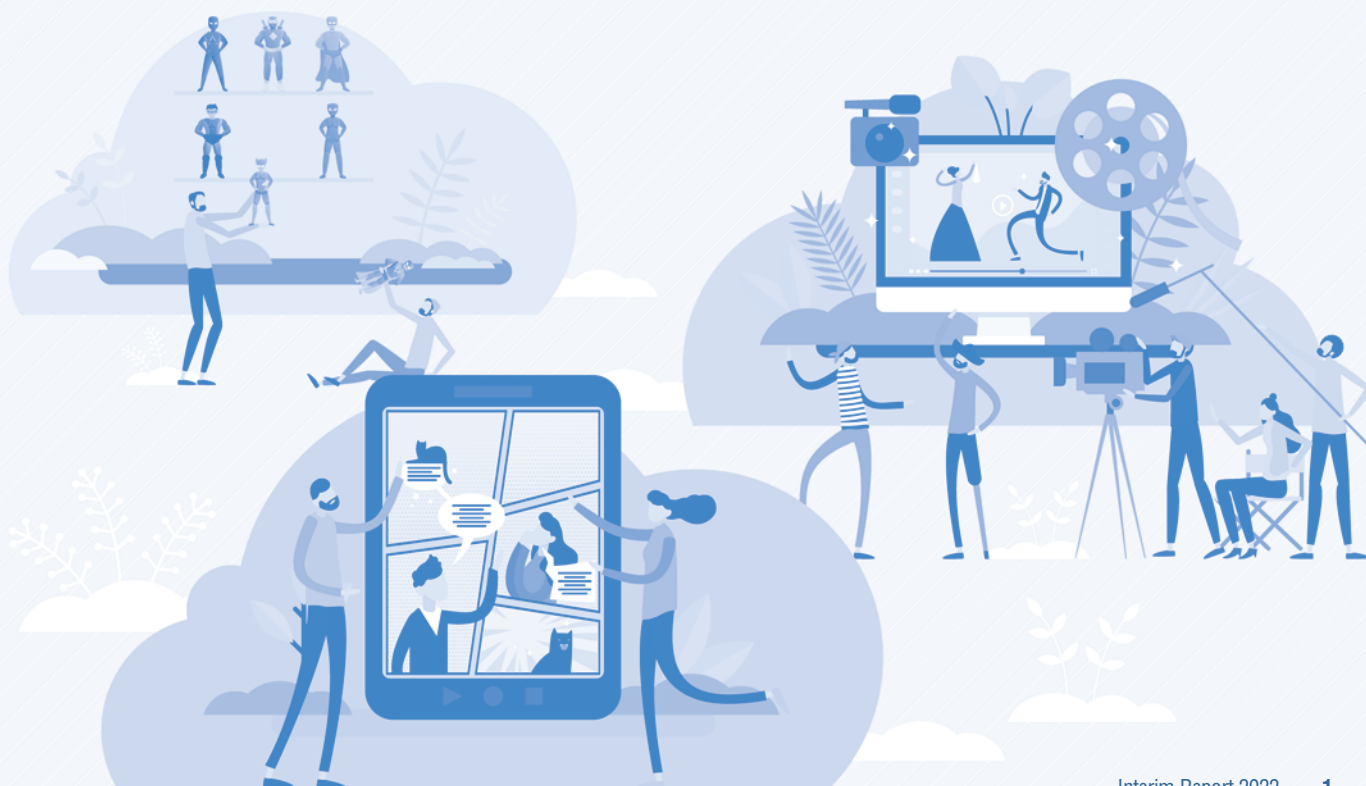


INTERIM REPORT **2022**



CONTENTS

2	Corporate Information
4	Financial Performance Highlights
5	Chairman's Statement
8	Management Discussion and Analysis
20	Other information
31	Report on Review of Interim Financial Information
32	Consolidated Statement of Comprehensive Income
33	Consolidated Statement of Financial Position
35	Consolidated Statement of Changes in Equity
37	Consolidated Statement of Cash Flows
39	Notes to Interim Financial Information
85	Definitions





CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Cheng Wu (*Chief Executive Officer*)
Mr. Hou Xiaonan (*President*)

Non-executive Directors

Mr. James Gordon Mitchell (*Chairman*)
Mr. Cao Huayi
Mr. Cheng Yun Ming Matthew
Mr. Zou Zhengyu

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. James Gordon Mitchell

Nomination Committee

Mr. James Gordon Mitchell (*Chairman*)
Ms. Yu Chor Woon Carol
Mr. Liu Junmin

Strategy and Investment Committee

Mr. Cheng Wu (*Chairman*)
Mr. James Gordon Mitchell
Mr. Hou Xiaonan
Mr. Zou Zhengyu

Authorized Representatives

Mr. Cheng Wu
Ms. Cheng Pui Yan

Joint Company Secretaries

Ms. Xu Lan
Ms. Cheng Pui Yan

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, Uglund 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 Huaihai East Road
Shanghai
PRC

Company's Website

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

Stock Code

772





FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		Year- over-year (%)
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	
Revenues	4,087,214	4,342,146	(5.9)
Gross profit	2,146,326	2,288,065	(6.2)
Operating profit	251,209	1,284,000	(80.4)
Profit before income tax	340,436	1,365,378	(75.1)
Profit for the period	232,276	1,080,950	(78.5)
Profit attributable to equity holders of the Company	228,545	1,082,742	(78.9)
Non-IFRS profit attributable to equity holders of the Company	665,995	664,989	0.2

CHAIRMAN'S STATEMENT

I hereby present our interim report for the six months ended June 30, 2022 to our shareholders.

During the first half of 2022, in response to changes in the external environment, we initiated a series of measures to control costs and improve operational efficiency, and focused more on key businesses and long-term targets. Our operating efficiency improved significantly as a result. Non-IFRS operating profit climbed 8.2% year-over-year to RMB693.8 million, and non-IFRS operating margin increased from 14.8% a year ago to 17.0%.

Business Highlights

IP Creation

Our IP begins with our literature platform, and during the first half of 2022, we increased the number, quality and visibility of IP on this platform.

On the supply side, our online literature platform added approximately 300,000 writers, 600,000 novels, and 16 billion Chinese characters. We accelerated the development of high-quality content in specific categories by improving our incubation and operations systems. For example, we identified through internal analysis the rising potential of science fiction themes, leading us to organize two science fiction writing contests and a series of activities, incubating about 20,000 science fiction works. 12 Platinum and Phenomenal Writers on our platform started to produce science fiction novels, making science fiction the fastest growing genre on our platform.

We also implemented cost control measures, proactively reduced certain sales and marketing expenses, and shifted our focus from prioritizing short-term revenue growth to optimizing operational efficiency and cost structure. As a result, we gave up a portion of revenues during the current period, but we believe these measures will lay a solid foundation for the healthy development of this business over the longer term.

IP Visualization

We are increasingly focused on releasing high-quality visualized content, re-creating literary stories in visual formats.

- In the live action TV and film segment, we launched several compelling new works, including:
 - A Lifelong Journey (人世間) – Adapted from the Mao Dun Literature Prize-winning novel by contemporary writer Liang Xiaosheng, this blockbuster drama series set an 8-year record for CCTV-1 prime time drama series ratings, topped all charts across the internet, and achieved both critical and popular acclaim.
 - Life is A Long Quiet River (心居) – This family drama series ranked first by ratings among local TV prime time drama series in the first half of this year, and ranked second in the popularity ranking conducted by iQIYI in the first half of this year, behind A Lifelong Journey (人世間).
 - The Wind Blows from Longxi (風起隴西) – Adapted from the novel by Ma Boyong, this drama series explores the theme of ancient spycraft in an innovative fashion, with a score of 8.1 on the Douban platform.
 - Master of My Own (請叫我總監) – This romantic drama series ranked first by ratings among local TV prime time drama series nationwide and ranked first in the list of hot drama series on Youku during its broadcast period.
 - Too Cool To Kill (這個殺手不太冷靜) – this film achieved box office receipts of RMB2.6 billion, ranking second in the 2022 Spring Festival box office.

CHAIRMAN'S STATEMENT

We also continued to work on serial development of IP drama series, such as Joy of Life (慶餘年), My Heroic Husband (贅婿), and Dafeng Guardian (大奉打更人). We believe that the launch of these works will elevate China Literature's IP brand appeal.

- In the animation segment, we launched new seasons of Stellar Transformations (星辰變) and Martial Universe (武動乾坤). At present, the series Stellar Transformations (星辰變) and Martial Universe (武動乾坤) have had 4 billion and 3 billion video views, respectively, and each ranked first in terms of average video views per episode among newly released animations on Tencent Video during their launch periods. According to data from Guduo, among the top 20 most watched domestic animation works released on Tencent Video in the first half of 2022, 11 were adapted from China Literature's IP.
- In the comics segment, we improved our production capacity, accelerated the process of IP visualization, and incubated top IP. Our joint project with Tencent Comics to adapt 300 online literary works into comics in three years is progressing, and we have launched over 170 adapted comic works on the Tencent Comics platform. Some titles have become blockbusters, such as Dafeng Guardian (大奉打更人), The First Sequence (第一序列) and Start with a Mountain (開局一座山).
- In the games segment, we strengthened our partnerships with high-quality game production studios. We licensed popular IPs such as Battle Through the Heavens (斗破蒼穹) and The Naming of Night (夜的命名術) to game developers for adaptation, and we look forward to the release of these adapted games in the next few years.

IP Commercialization

In the first half of 2022, we continued to build a foundation for the business, shortening the conversion time from IP to offline products, expanding the number of IP and product types, and achieving breakthroughs in theme, product style and design. We focused on opportunities in consumer goods, fashion toys and offline retail. We achieved initial success by working together with upstream and downstream partners in the industry. For example, we licensed a single edition of toy sculptures for the theme character "Medusa" from Battle Through the Heavens (斗破蒼穹), which sold out immediately, with GMV of RMB5 million. In future, we will develop derivatives adapted from other IP content, such as Joy of Life (慶餘年), Lord of the Mysteries (詭秘之主), The King's Avatar (全職高手) and Candle in the Tomb (鬼吹燈), and provide joint promotions for the launch of drama series, film, animation, comics, games and other content.

Overseas Business

We continued to promote cultural exchange and expand our international presence. As of June 30, 2022, WebNovel, our foreign language online reading brand, offered approximately 2,600 works translated from Chinese and approximately 420,000 original content works created locally.

CHAIRMAN'S STATEMENT

Social Responsibility

China Literature seeks to promote the development of good reading habits through social activities and public welfare projects, supporting the nationwide “reading for all” campaign. During the pandemic outbreaks earlier this year, we donated several million membership cards to users in pandemic-affected areas including Shanghai, Shenzhen and Suzhou, allowing them to read a large number of works for free. On World Book and Copyright Day this year, we collaborated with the National Library of China, Shanghai Library, People’s Literature Publishing House, Posts & Telecom Press and hundreds of other publishing units to promote nationwide reading. Our Qidian Reading App launched the “Nationwide Reading Month” campaign with 217 high-quality paid books available for free reading for the first time.

Outlook

Online literature has begun to show value and possibilities that go beyond text. To better meet people’s diverse literary, entertainment and cultural needs, China Literature is expanding its expertise to media formats including drama series, film, animation, comics, games and offline merchandise. China’s IP industry is still at an early stage, and requires sustained investment in IP development and creative talent. We seek to work with industry partners to create IP that spans the value chain, in the service of good stories that will live forever.

Appreciation

I 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, August 15, 2022





MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenues	4,087,214	4,342,146
Cost of revenues	(1,940,888)	(2,054,081)
Gross profit	2,146,326	2,288,065
Interest income	68,855	60,617
Other (losses)/gains, net	(235,409)	901,146
Selling and marketing expenses	(1,110,501)	(1,348,209)
General and administrative expenses	(557,530)	(635,087)
Net (provision for)/reversal of impairment losses on financial assets	(60,532)	17,468
Operating profit	251,209	1,284,000
Finance costs	(31,604)	(34,561)
Share of net profit of associates and joint ventures	120,831	115,939
Profit before income tax	340,436	1,365,378
Income tax expense	(108,160)	(284,428)
Profit for the period	232,276	1,080,950
Attributable to:		
Equity holders of the Company	228,545	1,082,742
Non-controlling interests	3,731	(1,792)
	232,276	1,080,950
Non-IFRS profit for the period	669,726	663,197
Attributable to:		
Equity holders of the Company	665,995	664,989
Non-controlling interests	3,731	(1,792)
	669,726	663,197

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues. Revenues decreased by 5.9% to RMB4,087.2 million for the six months ended June 30, 2022 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,			
	2022		2021	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Online business⁽¹⁾				
On our self-owned platform products	1,763,077	43.1	1,880,654	43.3
On our self-operated channels on Tencent products	347,482	8.5	353,456	8.1
On third-party platforms	196,457	4.8	305,846	7.1
Subtotal	2,307,016	56.4	2,539,956	58.5
Intellectual property operations and others⁽²⁾				
Intellectual property operations	1,731,258	42.4	1,740,086	40.1
Others	48,940	1.2	62,104	1.4
Subtotal	1,780,198	43.6	1,802,190	41.5
Total revenues	4,087,214	100.0	4,342,146	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 copyrights, operation of self-operated online games, and sales of physical books.

- Revenues from online business decreased by 9.2% to RMB2,307.0 million for the six months ended June 30, 2022 on a year-over-year basis, accounting for 56.4% of total revenues.

Revenues from online business on our self-owned platform products decreased by 6.3% to RMB1,763.1 million for the six months ended June 30, 2022. The decrease was mainly due to a reduction in marketing spending for user acquisition as we took initiatives to optimize costs and improve operational efficiency in online business during the first half of 2022.

Revenues from online business on our self-operated channels on Tencent products decreased by 1.7% to RMB347.5 million for the six months ended June 30, 2022, mainly due to the lower monetization efficiency of advertisements for our free reading content as impacted by the macro environment.

Revenues from online business on third-party platforms decreased by 35.8% to RMB196.5 million for the six months ended June 30, 2022, primarily due to the suspension of collaboration with certain third-party distribution partners.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarizes our key operating data for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,	
	2022	2021
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	264.7 million	232.7 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	8.1 million	9.3 million
Monthly average revenue per paying user ("ARPU") ⁽¹⁾	RMB38.8	RMB36.4

Note:

(1) 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 13.8% year-over-year from 232.7 million to 264.7 million for the six months ended June 30, 2022, among which i) MAUs on our self-owned platform products increased by 4.5% year-over-year from 114.6 million to 119.8 million, mainly driven by our strengths in high-quality content; and ii) MAUs on our self-operated channels on Tencent products increased by 22.7% year-over-year from 118.1 million to 144.9 million, mainly due to growth in users for our free-to-read content.
- Average MPUs on our self-owned platform products and self-operated channels decreased by 12.9% year-over-year from 9.3 million for the six months ended June 30, 2021 to 8.1 million for the six months ended June 30, 2022, mainly as more casual users were attracted to our free-to-read content in the second half of 2021. The average MPUs for the reporting period were stable compared to the previous six months results for the period ended December 31, 2021.
- Monthly ARPU for our pay-to-read business increased by 6.6% year-over-year from RMB36.4 to RMB38.8 for the six months ended June 30, 2022, reflecting improvements in content operations, community features, and recommendation efficiency. These drove the demand of paying users for high-quality content during the first half of 2022.
- Average DAUs for our free-to-read business increased by 7.7% year-over-year from 13 million in June 2021 to 14 million in June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

- Revenues from intellectual property operations and others decreased by 1.2% year-over-year to RMB1,780.2 million for the six months ended June 30, 2022.

Revenues from intellectual property operations were broadly stable at RMB1,731.3 million, compared with the six months ended June 30, 2021. During the first half of 2022, we experienced solid growth in revenues from our TV and web series, films, licensing of copyrights, and animation series. However, revenue growth was neutralized by lower revenue contributions from our self-operated online games.

Revenues from others decreased by 21.2% year-over-year to RMB48.9 million for the six months ended June 30, 2022. These revenues were generated mainly by sales of physical books.

Cost of revenues. Cost of revenues decreased by 5.5% year-over-year to RMB1,940.9 million for the six months ended June 30, 2022, as a result of i) lower amortization of intangible assets of content copyrights due to a lower unamortized balance, ii) a reduction in platform distribution costs for our online businesses, and iii) lower content costs related to revenues from our online reading business. The decrease in the cost of revenues was partially offset by an increase in production costs of TV, web and animated series and films along with the increase in revenues.



MANAGEMENT DISCUSSION AND ANALYSIS

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

	Six months ended June 30,			
	2022		2021	
	RMB'000 (Unaudited)	% of revenues	RMB'000 (Unaudited)	% of revenues
Content costs	743,142	18.2	800,085	18.4
Platform distribution costs	475,040	11.6	609,620	14.0
Production costs of TV, web and animated series and films	451,389	11.0	223,574	5.1
Amortization of intangible assets	102,106	2.5	242,749	5.6
Cost of inventories	25,168	0.6	33,512	0.8
Others	144,043	3.6	144,541	3.4
Total cost of revenues	1,940,888	47.5	2,054,081	47.3

Gross profit and gross margin. As a result of the foregoing, our gross profit declined by 6.2% year-over-year to RMB2,146.3 million for the six months ended June 30, 2022. Gross margin was 52.5% for the six months ended June 30, 2022, compared with 52.7% for the six months ended June 30, 2021.

Interest income. Interest income increased by 13.6% year-over-year to RMB68.9 million for the six months ended June 30, 2022, reflecting higher interest income from bank deposits.

Other (losses)/gains, net. We recorded net other losses of RMB235.4 million for the six months ended June 30, 2022, compared with net other gains of RMB901.1 million for the six months ended June 30, 2021. The year-over-year difference was mainly due to a gain of RMB1,076.8 million related to the sale of our equity interest in Shenzhen Lanren during the first half of 2021. The other losses for the six months ended June 30, 2022 consisted mainly of fair value losses of RMB372.9 million resulting from the decreased valuations of our investee companies. These losses were partially offset by a fair value gain of RMB112.2 million due to a change in the fair value of consideration liabilities related to the acquisition of NCM.

Selling and marketing expenses. Selling and marketing expenses decreased by 17.6% year-over-year to RMB1,110.5 million for the six months ended June 30, 2022, mainly as we reduced promotion and advertising expenses for online business as a part of our cost control and efficiency improvement initiatives during the first half of 2022. The decrease was partially offset by greater marketing expenses to promote our films and drama series during the first half of 2022. As a percentage of revenues, our selling and marketing expenses decreased to 27.2% for the six months ended June 30, 2022 from 31.0% for the six months ended June 30, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

General and administrative expenses. General and administrative expenses declined by 12.2% year-over-year to RMB557.5 million for the six months ended June 30, 2022, primarily due to a decrease in research and development expenses. As a percentage of revenues, general and administrative expenses decreased to 13.6% for the six months ended June 30, 2022 from 14.6% for the six months ended June 30, 2021.

Net (provision for)/reversal of impairment losses on financial assets. The impairment losses on financial assets reflected a provision for doubtful receivables. For the six months ended June 30, 2022, the provision for doubtful receivables was RMB60.5 million on a net basis, mainly related to TV series and film projects.

Operating profit. As a result of the foregoing, we had an operating profit of RMB251.2 million for the six months ended June 30, 2022, compared with RMB1,284.0 million for the six months ended June 30, 2021. Non-IFRS operating profit increased by 8.2% year-over-year from RMB641.5 million for the six months ended June 30, 2021 to RMB693.8 million for the six months ended June 30, 2022, reflecting successful efforts to control operational costs.

Finance costs. Finance costs decreased by 8.6% year-over-year to RMB31.6 million for the six months ended June 30, 2022. The decrease was mainly due to lower interest expenses as the balance of borrowings decreased in the first half of 2022.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased 4.2% year-over-year to RMB120.8 million for the six months ended June 30, 2022.

Income tax expense. Income tax expense was RMB108.2 million for the six months ended June 30, 2022, compared with RMB284.4 million for the six months ended June 30, 2021. The change was due to a lower profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company was RMB228.5 million for the six months ended June 30, 2022, compared with RMB1,082.7 million for the six months ended June 30, 2021. Non-IFRS profit attributable to equity holders of the Company increased by 0.2% from RMB665.0 million for the six months ended June 30, 2021 to RMB666.0 million for the six months ended June 30, 2022.



MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information:

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the six months ended June 30, 2022 and 2021:

	Six months ended June 30, 2022		
	Online business RMB'000 (Unaudited)	Intellectual property operations and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	1,146,745	794,143	1,940,888
Gross profit	1,160,271	986,055	2,146,326
Gross margin	50.3%	55.4%	52.5%

	Six months ended June 30, 2021		
	Online business RMB'000 (Unaudited)	Intellectual property operations and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	1,336,007	718,074	2,054,081
Gross profit	1,203,949	1,084,116	2,288,065
Gross margin	47.4%	60.2%	52.7%

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
EBITDA ⁽¹⁾	600,560	626,859
Adjusted EBITDA ⁽²⁾	745,058	708,887
Adjusted EBITDA margin ⁽³⁾	18.2%	16.3%
Interest expense	34,095	32,381
Net cash ⁽⁴⁾	6,555,723	5,691,918
Capital expenditures ⁽⁵⁾	136,603	117,778

Notes:

- (1) EBITDA consists of operating profit for the period 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 period plus share-based compensation expense and expenditures related to acquisition.
- (3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.
- (4) Net cash is calculated as cash and cash equivalents and term deposits, less total borrowings.
- (5) Capital expenditures consist of expenditures for intangible assets and property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table reconciles our operating profit to our EBITDA and adjusted EBITDA for the periods presented:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating profit	251,209	1,284,000
Adjustments:		
Interest income	(68,855)	(60,617)
Other losses/(gains), net	235,409	(901,146)
Depreciation of property, plant and equipment	9,598	9,479
Depreciation of right-of-use assets	49,927	32,442
Amortization of intangible assets	123,272	262,701
EBITDA	600,560	626,859
Adjustments:		
Share-based compensation	116,659	53,729
Expenditures related to acquisition	27,839	28,299
Adjusted EBITDA	745,058	708,887

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 period, non-IFRS net margin, non-IFRS profit attributable to equity holders of the Company, non-IFRS basic EPS and non-IFRS diluted EPS as additional financial measures, have been presented for the convenience of readers in this interim report. 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. These non-IFRS financial measures may be defined differently from similar terms used by other companies. In addition, non-IFRS adjustments include relevant non-IFRS adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

Our management believes that the presentation of these non-IFRS financial measures, when shown in conjunction with the corresponding IFRS measures, provides useful information to investors and management regarding the financial and business trends relating to the Company's financial condition and results of operations. Our management also believes that the non-IFRS financial measures are useful in evaluating our Group's operating performances. From time to time, there may be other items that our Company may include or exclude in reviewing its financial results.

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the reconciliations of our Group's non-IFRS financial measures for the six months ended June 30, 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2022					
	As reported	Share-based compensation	Adjustments		Tax effect	Non-IFRS
Net losses from investments and acquisition ⁽¹⁾			Amortization of intangible assets ⁽²⁾			
	(RMB' 000, unless specified)					
Operating profit	251,209	116,659	305,897	20,059	–	693,824
Profit for the period	232,276	116,659	305,897	20,059	(5,165)	669,726
Profit attributable to equity holders of the Company	228,545	116,659	305,897	20,059	(5,165)	665,995
EPS (RMB per share)						
– basic	0.23					0.66
– diluted	0.22					0.65
Operating margin	6.1%					17.0%
Net margin	5.7%					16.4%

	Unaudited six months ended June 30, 2021					
	As reported	Share-based compensation	Adjustments		Tax effect	Non-IFRS
Net (gains) from investments and acquisition ⁽¹⁾			Amortization of intangible assets ⁽²⁾			
	(RMB' 000, unless specified)					
Operating profit	1,284,000	53,729	(716,738)	20,469	–	641,460
Profit for the period	1,080,950	53,729	(716,738)	20,469	224,787	663,197
Profit attributable to equity holders of the Company	1,082,742	53,729	(716,738)	20,469	224,787	664,989
EPS (RMB per share)						
– basic	1.08					0.66
– diluted	1.07					0.66
Operating margin	29.6%					14.8%
Net margin	24.9%					15.3%

Notes:

- (1) For the six months ended June 30, 2022 and 2021, this item includes the disposal loss/(gains) and the fair value changes arising from our investee companies, the fair value changes of consideration liabilities related to the acquisition of NCM and the compensation costs for certain employees and former owners of NCM.
- (2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The Company maintained a healthy and sound financial position during the six months under review. Total assets decreased from RMB23,297.3 million as of December 31, 2021 to RMB22,775.3 million as of June 30, 2022, while our total liabilities decreased from RMB6,110.3 million as of December 31, 2021 to RMB5,144.5 million as of June 30, 2022. The liabilities-to-assets ratio decreased from 26.2% as of December 31, 2021 to 22.6% as of June 30, 2022.

As of June 30, 2022, the current ratio (the ratio of total current assets to total current liabilities) was 290.8%, compared with 282.2% as of December 31, 2021.

As of June 30, 2022 and December 31, 2021, our Group had pledged notes receivables as security to certain bank borrowings of RMB192.2 million and nil, respectively.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from banks. As of June 30, 2022, our Group had net cash of RMB6,555.7 million, compared with RMB6,031.1 million as of December 31, 2021. The increase in net cash in the first half of 2022 was mainly due to the cash generated from our operating activities, partially offset by capital expenditures and the earn-out cash consideration paid for the acquisition of NCM based on its 2021 financial performance. For the six months ended June 30, 2022, our Group had free cash flow of RMB548.7 million. This was a result of net cash flow generated from operating activities of RMB706.8 million, deducting payments for lease liabilities of RMB21.5 million and payments for capital expenditures of RMB136.6 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 June 30, 2022:

- Our gearing ratio was 3.4%, compared with 6.8% as of December 31, 2021.
- Our total borrowings were RMB594.9 million, which were primarily denominated in RMB and USD.
- Our unutilized banking facility was RMB2,088.5 million.

As of June 30, 2022 and December 31, 2021, our Group had no significant contingent liabilities.

As of June 30, 2022 and December 31, 2021, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures were primarily expenditures for intangible assets, such as copyrights of content and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the six months ended June 30, 2022 totalled RMB157.5 million, compared with RMB705.7 million for the six months ended June 30, 2021, representing a year-over-year decrease of RMB548.2 million which was primarily due to less expenditure on investments in the first half of 2022. 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 flow generated from our operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily RMB, HKD, USD, JPY and SGD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the 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, or forward foreign exchange contracts, when necessary. We did not hedge against foreign currency movements during the six months ended June 30, 2022 and 2021.

Employees

As of June 30, 2022, we had approximately 1,900 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 accident insurance for our employees. Bonuses are generally discretionary and are based in part on the overall performance of our business. We have granted and planned to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

New Classics Media

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in TV series, web series and film production and distribution in China. NCM, on a standalone basis, recorded RMB966.7 million in revenues and RMB208.5 million in profit attributable to equity holders of the company for the six months ended June 30, 2022.

No Material Changes

Since the publication of our audited financial statements for the year ended December 31, 2021 on March 22, 2022, there have been no material changes to our business.



OTHER INFORMATION

Corporate Governance

The Group is committed to maintaining high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Company's business. The Company has adopted the CG Code as its own code of corporate governance.

During the six months ended June 30, 2022, the Company has complied with all the applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having been made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2022.

Interim Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2022 (2021: Nil).

Audit Committee

The Audit Committee, together with the Board and the Auditor, has reviewed the interim results of the Group for the six months ended June 30, 2022. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and has also reviewed the effectiveness of the risk management and internal control systems of the Company, and considered the risk management and internal control systems to be effective and adequate.

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Changes of Directors' Information

Changes of Directors' information since the publication of the Company's 2021 annual report are set out below:

- Mr. Cheng Yun Ming Matthew is a director of Tencent Music Entertainment Group (listed on the New York Stock Exchange under the symbol of TME) appointed on May 27, 2022.

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As of June 30, 2022, 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. James Gordon Mitchell	Beneficial owner	281,352	Long position	0.03
Mr. Cao Huayi ⁽²⁾	Interest in controlled corporations	41,393,571	Long position	4.05
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00
Mr. Cheng Wu	Beneficial owner	4,204,400 ⁽³⁾	Long position	0.41
Mr. Hou Xiaonan	Beneficial owner	2,287,072 ⁽⁴⁾	Long position	0.22

OTHER INFORMATION

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

Name	Name of Associated Corporations	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in Associated Corporations (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	14,250,381 ⁽⁵⁾	0.15
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Mr. Cheng Yun Ming Matthew	Tencent Holdings Limited	Beneficial owner	530,013 ⁽⁶⁾	0.01
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	188,264 ⁽⁷⁾	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	122,930 ⁽⁸⁾	0.00
Mr. Cao Huayi	Tencent Holdings Limited	Interest in controlled corporations	190,000 ⁽⁹⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,023,033,672 Shares in issue as of June 30, 2022.
- (2) As at June 30, 2022, 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 35,117,461 Shares and 6,276,110 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (3) As at June 30, 2022, these interests comprised (i) 1,136,292 Shares, (ii) 168,108 underlying Shares in respect of the RSUs granted to Mr. Cheng Wu under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,900,000 underlying Shares in respect of the Options granted to Mr. Cheng Wu under the 2021 Share Option Plan.
- (4) As at June 30, 2022, these interests comprised (i) 28,018 Shares, (ii) 84,054 underlying Shares in respect of the RSUs granted to Mr. Hou Xiaonan under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,175,000 underlying Shares in respect of the Options granted to Mr. Hou Xiaonan under the 2021 Share Option Plan.
- (5) As at June 30, 2022, these interests comprised (i) 3,033,356 shares of Tencent, (ii) 1,278,729 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 9,938,296 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.
- (6) As at June 30, 2022, these interests comprised (i) 357,524 shares of Tencent, (ii) 47,768 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award schemes of Tencent, and (iii) 124,721 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.
- (7) As at June 30, 2022, these interests comprised (i) 44,039 shares of Tencent, (ii) 3,418 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award schemes of Tencent, and (iii) 140,807 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.

OTHER INFORMATION

- (8) As at June 30, 2022, these interests comprised (i) 108,131 shares of Tencent, and (ii) 14,799 shares underlying Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (9) As at June 30, 2022, Mr. Cao Huayi was interested in 100% of C-Hero Limited and was therefore deemed to be interested in the 190,000 Shares interested in by C-Hero Limited.

Save as disclosed above, as of June 30, 2022, none of the Directors and chief executives of the Company has or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Furthermore, save as disclosed in the foregoing, during the six months ended 30 June 2022, 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 June 30, 2022, 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	577,643,604	Long position	56.46
THL A13 Limited ⁽²⁾	Beneficial owner	268,600,500	Long position	26.26
Qinghai Lake Investment Limited ⁽²⁾	Beneficial owner	230,705,634	Long position	22.55
Tencent Mobility Limited ⁽²⁾	Beneficial owner	78,337,470	Long position	7.66
Brown Brothers Harriman & Co. ⁽³⁾	Approved lending agent	52,873,751	Long position	5.17
		52,873,751	Lending pool	5.17



OTHER INFORMATION

Notes:

- (1) The calculation is based on the total number of 1,023,033,672 Shares in issue as of June 30, 2022.
- (2) As at June 30, 2022, THL A13, Qinghai Lake and Tencent Mobility Limited were wholly-owned subsidiaries of Tencent. Under the SFO, Tencent was deemed to be interested in 577,643,604 Shares directly held by THL A13, Qinghai Lake and Tencent Mobility Limited in aggregate.
- (3) As at June 30, 2022, according to the disclosure of interests form (the "DI Form") submitted by Brown Brothers Harriman & Co. on the website of Stock Exchange, Brown Brothers Harriman & Co. held 52,873,751 Shares (long position) in the capacity of agent, all of which were lending pool.
- (4) Pursuant to Section 336 of the SFO, the Shareholders are required to file DI Forms when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange's official website. When a Shareholder's shareholdings in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial Shareholders' latest shareholdings in the Company may be different to the shareholdings filed with the Company and the Stock Exchange. The above statements of substantial Shareholders' interests are prepared based on the information in the relevant DI Forms for the relevant events as of June 30, 2022 filed by substantial Shareholders. The Company may not have sufficient information on the breakdown of the relevant interests and cannot verify the accuracy of information on the DI Forms.

Save as disclosed above, as of June 30, 2022, 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.



OTHER INFORMATION

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 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.

OTHER INFORMATION

Details of the RSUs Granted under the RSU Plan

The RSUs granted in respect of 18,552,500 underlying Shares (excluding the RSUs forfeited) on December 23, 2014 have a vesting period of five years, one-fifth of which will each vest on December 23, 2015, 2016, 2017, 2018 and 2019.

The RSUs granted in respect of 5,782,500 underlying Shares (excluding the RSUs forfeited) on January 17, 2017 have a vesting period of five years, one-fifth of which will each vest on January 17, 2018, 2019, 2020, 2021 and 2022.

The RSUs granted in respect of 7,100,000 underlying Shares (excluding the RSUs, forfeited) on September 4, 2017 have a vesting period of five years, one-fifth of which will each vest on September 4, 2018, 2019, 2020, 2021 and 2022.

The RSUs granted in respect of 3,900,500 underlying Shares (excluding the RSUs, forfeited) on October 29, 2018 have a vesting period of five years, one-fifth of which will each vest on October 29, 2019, 2020, 2021, 2022 and 2023.

The RSUs granted in respect of 5,690,000 underlying Shares (excluding the RSUs, forfeited) on April 10, July 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.

The RSUs granted in respect of 1,886,489 underlying Shares (excluding the RSUs, forfeited) on January 4, April 12, July 12, October 18 and November 5, 2021 have a vesting period of five years, one-fifth of which will each vest on January 4, April 12, July 12, October 18 and November 5, 2022, 2023, 2024, 2025 and 2026 respectively.

The RSUs granted in respect of 1,781,682 underlying Shares (excluding the RSUs, forfeited) on January 10 and April 6, 2022 have a vesting period of five years, one-fifth of which will each vest on January 10 and April 6, 2023, 2024, 2025, 2026 and 2027 respectively.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2022	7,304,840
Granted	1,781,682
Forfeited	(467,517)
Vested	(968,333)
Outstanding balance as of June 30, 2022	7,650,672

OTHER INFORMATION

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.

OTHER INFORMATION

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-fourth of which will each vest on September 1, 2021, 2022, 2023, and 2024 respectively.

The RSUs granted in respect of 1,960,258 underlying Shares (excluding the RSUs, forfeited) on April 12, July 12 and September 16, 2021 have a vesting period of four years, one-fourth of which will each vest on April 12, July 12 and September 16, 2022, 2023, 2024, and 2025 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 six months ended June 30, 2022	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, 2022	4,351,636
Granted	–
Forfeited	(419,548)
Vested	(10,962)
Outstanding balance as of June 30, 2022	3,921,126

OTHER INFORMATION

Share Option Scheme

Pursuant to a resolution passed at the annual general meeting held on May 24, 2021, the Company adopted a share option scheme (the “2021 Share Option Scheme”). The purpose of the 2021 Share Option Scheme was to recognise the contribution that the participants have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2021 Share Option Scheme is valid and effective for a period of 10 years commencing on May 24, 2021. Following the expiry of the 2021 Share Option Scheme, no further share option can be granted under the 2021 Share Option Scheme, but the provisions of the 2021 Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the 2021 Share Option Scheme.

Details of the Options Granted under the 2021 Share Option Plan

As at June 30, 2022, there were a total of 1,268,750 outstanding Options granted to directors of the Company, details of which are as follows:

Name of Director	Date of grant	Number of Options			Subscription Price (exercise price)		Exercise period
		As at January 1, 2022	Granted during the period	Exercised during the period	As at June 30, 2022	HKD	
Cheng Wu	July 12, 2021	2,900,000 (Note 2)	–	–	2,900,000	82.85	July 12, 2021 – July 12, 2031 (Note 1)
Hou Xiaonan	July 12, 2021	2,175,000 (Note 2)	–	–	2,175,000	82.85	July 12, 2021 – July 12, 2031 (Note 1)
Total:		5,075,000	–	–	5,075,000		

Notes:

- For Options granted with exercisable date determined based on the grant date of Options, the first 25% of the total Options shall be vested and can be exercised after the grant date, and each 25% of the total Options will be vested and become exercisable in each subsequent year.
- The closing price immediately before the date on which the Options were granted on July 12, 2021 was HKD80.65 per share.
- No Options were exercised, cancelled or lapsed during the six months ended 30 June 2022.

OTHER INFORMATION

Details of movements of outstanding Options granted to employees of the Group (apart from director(s) of the Company) who are independent third parties of the Company during the six months ended June 30, 2022 are as follows:

Date of grant	Number of Options				Subscription Price		Exercise period
	As at January 1, 2022	Granted during the period	Exercised during the period	Lapsed/ forfeited during the period	As at June 30, 2022	(exercise price) HKD	
July 12, 2021	949,914 (Note 2)	-	-	59,061	890,853	82.85	July 12, 2022 – July 12, 2032 (Note 1)
November 5, 2021	1,786,539 (Note 2)	-	-	-	1,786,539	53.14	November 5, 2022 – November 5, 2032 (Note 1)
	2,736,453	-	-	-	2,677,392		

Notes:

- For Options granted with exercisable date determined based on the grant date of Options, the first 25% of the total Options shall be vested and can be exercised one year after the grant date, and each 25% of the total Options will be vested and become exercisable in each subsequent year.
- The closing price immediately before the date on which the Options were granted on July 12, 2021 was HKD80.65 per share.
- The closing price immediately before the date on which the Options were granted on November 5, 2021 was HKD53.25 per share.
- No options were exercised, cancelled or lapsed during the six months ended 30 June 2022.

Movements in the number of Options outstanding are as follows:

	Number of Options
As of January 1, 2022	7,811,453
Granted	-
Cancelled	-
Lapsed/Forfeited	(59,061)
Outstanding balance as of June 30, 2022	7,752,392
Exercisable as of June 30, 2022	1,268,750

The total number of Options available for grant under the 2021 Share Option Plan is 17,658,688, which represents approximately 1.73% of the issued shares of the Company as at the date of this interim report.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To the Board of Directors of China Literature Limited

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 39 to 84, which comprises the consolidated statement of financial position of China Literature Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2022 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 15, 2022



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2022

	Note	Six months ended June 30,	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenues	7	4,087,214	4,342,146
Cost of revenues	8	(1,940,888)	(2,054,081)
Gross profit		2,146,326	2,288,065
Interest income	9	68,855	60,617
Other (losses)/gains, net	10	(235,409)	901,146
Selling and marketing expenses	8	(1,110,501)	(1,348,209)
General and administrative expenses	8	(557,530)	(635,087)
Net (provision for)/reversal of impairment losses on financial assets		(60,532)	17,468
Operating profit		251,209	1,284,000
Finance costs	11	(31,604)	(34,561)
Share of net profit of associates and joint ventures	18	120,831	115,939
Profit before income tax		340,436	1,365,378
Income tax expense	12	(108,160)	(284,428)
Profit for the period		232,276	1,080,950
Other comprehensive income/(loss): <i>Items that may be subsequently reclassified to profit or loss</i>			
Share of other comprehensive loss of associates and joint ventures		(458)	(2,352)
Currency translation differences		46,071	(40,598)
<i>Items that may not be reclassified to profit or loss</i>			
Net (loss)/gain from change in fair value of financial asset at fair value through other comprehensive income		(6,571)	5,912
Currency translation differences		71,819	(2,154)
		110,861	(39,192)
Total comprehensive income for the period		343,137	1,041,758
Profit attributable to:			
– Equity holders of the Company		228,545	1,082,742
– Non-controlling interests		3,731	(1,792)
		232,276	1,080,950
Total comprehensive income attributable to:			
– Equity holders of the Company		339,414	1,044,054
– Non-controlling interests		3,723	(2,296)
		343,137	1,041,758
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	13(a)	0.23	1.08
– Diluted earnings per share	13(b)	0.22	1.07

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2022

	Note	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	67,328	45,123
Right-of-use assets	16	227,205	281,465
Intangible assets	17	7,436,978	7,455,499
Investments in associates and joint ventures	18	1,055,661	932,278
Financial assets at fair value through profit or loss	20	953,541	1,310,030
Financial asset at fair value through other comprehensive income	21	8,251	14,073
Deferred income tax assets	22	244,722	271,815
Prepayments, deposits and other assets	24	234,462	256,721
		10,228,148	10,567,004
Current assets			
Inventories	25	738,271	653,764
Television series and film rights	26	944,445	1,090,892
Financial assets at fair value through profit or loss	20	4,500	–
Trade and notes receivables	27	2,541,302	2,747,240
Prepayments, deposits and other assets	24	1,168,076	1,031,971
Term deposits		2,414,890	2,678,031
Cash and cash equivalents		4,735,717	4,528,412
		12,547,201	12,730,310
Total assets		22,775,349	23,297,314
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	23	649	649
Shares held for RSU scheme	23	(17,450)	(17,450)
Share premium	23	16,403,026	16,412,728
Other reserves	28	1,680,146	1,455,101
Accumulated losses		(436,028)	(664,573)
		17,630,343	17,186,455
Non-controlling interests		466	516
Total equity		17,630,809	17,186,971

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2022

	Note	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	–	382,542
Lease liabilities	16	164,122	201,850
Long-term payables		6,461	9,119
Deferred income tax liabilities	22	144,014	149,286
Deferred revenue		27,692	28,846
Financial liabilities at fair value through profit or loss	33	488,000	827,190
		830,289	1,598,833
Current liabilities			
Borrowings	30	594,884	792,776
Lease liabilities	16	83,764	72,573
Trade payables	31	1,188,878	1,127,368
Other payables and accruals	32	1,152,793	1,185,762
Deferred revenue		679,036	669,764
Current income tax liabilities		160,818	338,603
Financial liabilities at fair value through profit or loss	33	454,078	324,664
		4,314,251	4,511,510
Total liabilities		5,144,540	6,110,343
Total equity and liabilities		22,775,349	23,297,314

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

On behalf of the board of directors

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2022

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital	Share premium	Shares held for RSU scheme	Other reserves	Accumulated losses	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)									
As of January 1, 2022	649	16,412,728	(17,450)	1,455,101	(664,573)	17,186,455	516	17,186,971	
Comprehensive income									
Profit for the period	-	-	-	-	228,545	228,545	3,731	232,276	
Other comprehensive income									
- Share of other comprehensive loss of associates and a joint venture (Note 18)	-	-	-	(458)	-	(458)	-	(458)	
- Currency translation differences	-	-	-	117,898	-	117,898	(8)	117,890	
- Net loss from change in fair value of financial asset at fair value through other comprehensive income (Note 21)	-	-	-	(6,571)	-	(6,571)	-	(6,571)	
Total comprehensive income for the period	-	-	-	110,869	228,545	339,414	3,723	343,137	
Transaction with owners									
Share-based compensation expenses	-	-	-	116,659	-	116,659	-	116,659	
Transfer of vested RSUs	-	(41,121)	-	-	-	(41,121)	-	(41,121)	
Issue of ordinary shares as consideration for a business combination	-	31,419	-	-	-	31,419	-	31,419	
Acquisition of non-controlling interests (Note 28 (a))	-	-	-	(2,483)	-	(2,483)	(2,416)	(4,899)	
Disposal of a non-wholly owned subsidiary (Note 10(b))	-	-	-	-	-	-	(1,357)	(1,357)	
Transactions with owners in their capacity for the period	-	(9,702)	-	114,176	-	104,474	(3,773)	100,701	
As of June 30, 2022	649	16,403,026	(17,450)	1,680,146	(436,028)	17,630,343	466	17,630,809	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2022

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held			Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
			for RSU scheme RMB'000	Other reserves RMB'000	Accumulated losses RMB'000			
(Unaudited)								
As of January 1, 2021	645	16,259,688	(9)	1,268,188	(2,435,005)	15,093,507	5,000	15,098,507
Comprehensive income								
Profit for the period	-	-	-	-	1,082,742	1,082,742	(1,792)	1,080,950
Other comprehensive loss								
- Share of other comprehensive loss of associates and a joint venture (Note 18)	-	-	-	(2,352)	-	(2,352)	-	(2,352)
- Currency translation differences	-	-	-	(42,248)	-	(42,248)	(504)	(42,752)
- Net gain from change in fair value of financial asset at fair value through other comprehensive income (Note 21)	-	-	-	5,912	-	5,912	-	5,912
Total comprehensive income for the period	-	-	-	(38,688)	1,082,742	1,044,054	(2,296)	1,041,758
Transaction with owners								
Share-based compensation expenses	-	-	-	53,729	-	53,729	-	53,729
Repurchase of shares for RSU scheme	-	-	(12,201)	-	-	(12,201)	-	(12,201)
Transfer of vested RSUs	-	(2,052)	2	-	-	(2,050)	-	(2,050)
Issue of ordinary shares as consideration for a business combination	2	202,027	-	-	-	202,029	-	202,029
Transactions with owners in their capacity for the period	2	199,975	(12,199)	53,729	-	241,507	-	241,507
As of June 30, 2021	647	16,459,663	(12,208)	1,283,229	(1,352,263)	16,379,068	2,704	16,381,772

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2022

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	969,592	804,977
Income tax paid	(262,825)	(374,950)
Net cash generated from operating activities	706,767	430,027
Cash flows from investing activities		
Net cash outflow arising from disposal of a subsidiary	(13,989)	-
Placements of term deposits with initial term of over three months	(2,360,266)	(2,001,297)
Receipts from maturity of term deposits with initial term of over three months	2,626,507	3,080,551
Payment for an investment in an associate	(1,903)	-
Purchase of property, plant and equipment	(31,745)	(10,510)
Purchase of intangible assets	(104,858)	(107,268)
Proceeds from disposals of property, plant and equipment	138	143
Proceeds from disposals of intangible assets	-	133,962
Interest received	63,292	69,227
Dividends received	-	161
Settlement of contingent consideration payable	(68,010)	(204,201)
Payment for acquisition of financial assets at fair value through profit or loss	(18,991)	(554,828)
Payment for acquisition of a financial asset at fair value through other comprehensive income	-	(33,050)
Proceeds from settlement of loan to a former subsidiary	6,700	-
Proceeds from sale of held for sale asset	-	1,076,817
Proceeds from settlements of financial assets at fair value through profit or loss	9,231	-
Net cash generated from investing activities	106,106	1,449,707



CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2022

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Proceeds from borrowings	239,066	154,857
Repayments of borrowings	(839,642)	(176,430)
Finance costs paid	(35,642)	(32,474)
Repurchase of shares for RSU scheme	–	(12,201)
Proceeds from financial investors in television series and films	–	6,056
Payments for acquisition of non-controlling interests	(4,899)	–
Repayments to financial investors in television series and films	(11,400)	(31,125)
Principal elements of lease payments	(21,519)	(33,392)
Net cash flows used in financing activities	(674,036)	(124,709)
Net increase in cash and cash equivalents	138,837	1,755,025
Cash and cash equivalents at beginning of the period	4,528,412	2,848,231
Exchange gains/(losses) on cash and cash equivalents	68,468	(19,703)
Cash and cash equivalents at end of the period	4,735,717	4,583,553

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



NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

China Literature Limited (the “Company”) was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 8, 2017.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), are principally engaged in the provision of reading services (either free or paid), copyright commercialisation (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realisation of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the People’s Republic of China (the “PRC”). On October 31, 2018, the Group acquired 100% equity interest of New Classics Media Holdings Limited (or referred to as “New Classics Media” and previously known as “Qiandao Lake Holdings Limited”). New Classics Media and its subsidiaries are principally engaged in production and distribution of television series, web series and films in the PRC, which has further expanded the Group’s intellectual property operation business, in particular for the production and distribution of film and TV programs.

The ultimate holding company of the Company is Tencent Holdings Limited (“Tencent”), which is incorporated in the Cayman Islands with limited liability and the shares of Tencent have been listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial information comprises the consolidated statement of financial position as of June 30, 2022, the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and notes, comprising significant accounting policies and other explanatory information (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in the 2021 annual report of the Company dated March 22, 2022 (the “2021 Financial Statements”).

NOTES TO THE INTERIM FINANCIAL INFORMATION

3 Significant accounting policies

Except as described below, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2021 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including contingent consideration payable) at fair value through profit or loss, which are carried at fair value.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profit.

3.1 Amendments to standards and interpretations adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 Cycle

3.2 New standards and amendments to standards that have been issued but not effective

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2022 and have not been early adopted by the Group in preparing the interim financial information. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture	To be determined
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

NOTES TO THE INTERIM FINANCIAL INFORMATION

4 Estimates

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2021 Financial Statements.

5 Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2021 Financial Statements.

There was no changes in the risk management policies during the six months ended June 30, 2022.

5.2 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.



NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Financial risk management and financial instruments (Continued)

5.2 Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
(Unaudited)					
As of June 30, 2022					
Trade payables	1,188,878	–	–	–	1,188,878
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	937,179	–	–	–	937,179
Borrowings (Note 30)	594,884	–	–	–	594,884
Financial liabilities at fair value through profit or loss (Note 33)*	174,578	176,385	181,485	–	532,448
Lease liabilities (Note 16)	87,551	57,369	119,011	–	263,931
Total	2,983,070	233,754	300,496	–	3,517,320

* Financial liabilities at fair value through profit or loss will be settled by a combination of cash and shares of the Company issued for part of the settlement. Except for the undiscounted cash flows as disclosed above, ordinary shares of approximately RMB82,589,000, RMB83,283,000 and RMB85,710,000 will be issued as consideration for the business combination in less than 1 year, between 1 and 2 year and between 2 and 5 years, respectively.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2021					
Trade payables	1,127,368	–	–	–	1,127,368
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	860,243	872	–	–	861,115
Borrowings (Note 30)	792,776	382,542	–	–	1,175,318
Financial liabilities at fair value through profit or loss (Note 33)	204,026	186,858	355,236	–	746,120
Lease liabilities (Note 16)	77,189	76,244	142,019	–	295,452
Total	3,061,602	646,516	497,255	–	4,205,373

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Financial risk management and financial instruments (Continued)

5.3 Fair values estimation

The table below analyses the Group's financial instruments carried at fair values, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair values as of June 30, 2022.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares	–	–	930,593	930,593
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	10,948	–	–	10,948
– Investments in television series and films	–	–	4,500	4,500
	10,948	–	947,093	958,041
Financial asset at fair value through other comprehensive income				
– Investment in a listed entity	8,251	–	–	8,251
	19,199	–	947,093	966,292
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (current and non-current portions)	–	–	942,078	942,078

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Financial risk management and financial instruments (Continued)

5.3 Fair values estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair values as of December 31, 2021.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Investments in redeemable shares	–	–	1,254,149	1,254,149
– Investments in unlisted entities	–	–	12,000	12,000
– Investment in a listed entity	14,047	–	–	14,047
– Investments in television series and films	–	–	29,834	29,834
	14,047	–	1,295,983	1,310,030
Financial asset at fair value through other comprehensive income				
– Investment in a listed entity	14,073	–	–	14,073
	28,120	–	1,295,983	1,324,103
Liabilities				
Financial liabilities at fair value through profit or loss				
– Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (current and non-current portions)	–	–	1,151,854	1,151,854

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Financial risk management and financial instruments (Continued)

5.3 Fair values estimation (Continued)

The fair value of financial instruments 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.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no changes in valuation techniques during the periods.



NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Financial risk management and financial instruments (Continued)

5.3 Fair values estimation (Continued)

The following table presents the changes in level 3 financial instruments for the six months ended June 30, 2022 and 2021.

	Financial assets		Financial liabilities	
	Six months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Opening balance	1,295,983	902,444	1,151,854	1,396,102
Additions	18,991	304,593	–	–
Settlement of contingent consideration payable	–	–	(99,429)	(406,231)
Changes in fair value recognised as other (losses)/gains, net	(387,051)	50,195	(112,172)	383,228
Compensation cost	–	–	1,825	1,875
Changes in fair value recognised as revenues	1,897	(1,684)	–	–
Settlement of investments in television series and films	(9,231)	–	–	–
Disposal	–	(1,497)	–	–
Currency translation differences	26,504	(1,398)	–	–
Closing balance	947,093	1,252,653	942,078	1,374,974
Include unrealised (losses)/gains recognised in profit or loss attributable to balances held at the end of the reporting period	(369,051)	48,511	(103,378)	383,228

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Segment information

The chief operating decision-makers mainly include executive directors of the Group. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

The Group had the following reportable segments for the six months ended June 30, 2022 and 2021:

- 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 June 30, 2022 and 2021, the chief operating decision-makers assessed 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 were common costs incurred for these operating segments as a whole and therefore, they were not included in the measure of the segments' performance which was used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net (provision for)/reversal of impairment loss on financial assets, other (losses)/gains, net, finance costs, share of profit of investments accounted for using equity method and income tax expenses were also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2022 and 2021. The revenues from external customers reported to the chief operating decision-makers were measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

Other information, together with the segment information, provided to the chief operating decision-makers, was measured in a manner consistent with that applied in the Interim Financial Information. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC and earns substantially all of the revenues from external customers attributed to the PRC. The revenue is mainly generated in the PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Segment information (Continued)

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2022 and 2021 is as follows:

	Six months ended June 30, 2022		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,307,016	1,780,198	4,087,214
Cost of revenues	1,146,745	794,143	1,940,888
Gross profit	1,160,271	986,055	2,146,326
	Six months ended June 30, 2021		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
(Unaudited)			
Segment revenues	2,539,956	1,802,190	4,342,146
Cost of revenues	1,336,007	718,074	2,054,081
Gross profit	1,203,949	1,084,116	2,288,065

The reconciliation of gross profit to profit before income tax of individual period during the six months ended June 30, 2022 and 2021 is shown in the consolidated statement of comprehensive income.

For the six months ended June 30, 2022, the Group's customer base was diversified and included only Tencent, with whom transactions exceeded 10% of the Group's total revenues (for the six months ended June 30, 2021: only Tencent).

As of June 30, 2022 and 2021, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION

7 Revenues

7.1 Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major lines:

(Unaudited) Six months ended June 30, 2022	Online business			Intellectual property operations and others		
	On self-operated		On third-party	Intellectual property		Total
	On self-owned	channels on		operations	Others	
	platform products	Tencent products	platforms	operations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:						
– At a point in time	1,611,937	259,053	196,457	1,204,167	46,436	3,318,050
– Over time	151,140	88,429	–	527,091	2,504	769,164
	1,763,077	347,482	196,457	1,731,258	48,940	4,087,214

(Unaudited) Six months ended June 30, 2021	Online business			Intellectual property operations and others		
	On self-operated		On third-party	Intellectual property		Total
	On self-owned	channels on		operations	Others	
	platform products	Tencent products	platforms	operations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:						
– At a point in time	1,718,435	252,451	305,846	806,420	59,472	3,142,624
– Over time	162,219	101,005	–	933,666	2,632	1,199,522
	1,880,654	353,456	305,846	1,740,086	62,104	4,342,146

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 Expenses by nature

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Promotion and advertising expenses (Note a)	850,579	1,091,655
Content costs (Note b)	743,142	800,085
Employee benefits expenses (Note c)	556,171	497,530
Platform distribution costs (Note d)	475,040	609,620
Production costs of television, web and animated series and films	451,389	219,231
Payment handling costs	131,851	166,438
Amortisation of intangible assets (Note 17)	123,272	262,701
Depreciation of right-of-use assets (Note 16)	49,927	32,442
Game development outsourcing costs	38,412	146,994
Bandwidth and server custody fees	35,936	41,052
Cost of physical inventories sold	19,961	19,945
Impairment loss on prepayments to directors, actors and writers	18,732	20,000
Travelling, entertainment and general office expenses	12,064	18,092
Professional service fees	11,904	18,912
Tax surcharge expenses	10,396	9,565
Depreciation of property, plant and equipment (Note 15)	9,598	9,479
Provision for physical inventory obsolescence	5,207	13,567
Auditors' remuneration		
– Audit services	5,315	5,417
– Non-audit services	151	96
Logistic expenses	2,528	2,462
Expense relating to short-term leases (Note 16)	2,278	1,700
Impairment loss on television series and film rights (Note 26)	–	4,343
Others	55,066	46,051
	3,608,919	4,037,377

Notes:

- (a) Promotion and advertising expenses include: 1) pre and post installation promotion expenses that the Group paid to mobile device manufacturers for its operations of unbranded white-label products, and 2) the Group paid to various public accounts in social networking apps for the operations of the Group's online reading contents. These expenses are recorded as "selling and marketing expenses" in the consolidated statement of comprehensive income.
- (b) Content costs mainly consist of 1) other than the initial acquisition of the copyrights from writers, the Group also pays a certain percentage of the revenues earned on such contents 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 income.
- (c) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2022 was approximately RMB281,379,000 (six months ended June 30, 2021: RMB407,358,000), which mainly included employee benefits expenses of research and development function staff.
- (d) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9 Interest income

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest income on bank deposits	68,855	60,617

10 Other (losses)/gains, net

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fair value (loss)/gain of investments in redeemable shares (Note a)	(369,051)	50,195
Fair value gain/(loss) on contingent consideration payable (Note 5.3)	112,172	(383,228)
Government subsidies	52,184	38,292
Loss on disposal of a subsidiary (Note b)	(16,934)	–
Fair value (loss)/gain of investments in other financial assets at fair value through profit or loss	(21,835)	4,842
Compensation received for copyright infringements	3,633	6,253
Gain on sale of a held for sale asset (Note 34(c))	–	1,076,817
Gain on disposals of intangible assets	–	133,962
Impairment loss of other intangible assets (Note 17)	–	(25,776)
Loss on liquidation of subsidiaries	–	(3,590)
Others, net	4,422	3,379
	(235,409)	901,146

Notes:

- (a) The Group had engaged independent external valuers to assist in performing the fair value valuation of the investments in redeemable shares of third-party companies as of June 30, 2022. For the six months ended June 30, 2022, the fair value loss of investments in redeemable shares of associates was mainly due to the deteriorating financial position of an investee company.
- (b) In April 2022, the Group entered into a share transfer agreement to sell the Group's 89.55% equity interest in its non-wholly owned subsidiary, Zhongzhi Bowen Book Co., Ltd. ("Zhongzhi"), to the minority shareholder of the Zhongzhi at the cash consideration of RMB2,000,000. Upon the disposal, the cash and cash equivalents owned by Zhongzhi amounted to approximately RMB15,989,000. After this transaction, the Group disposed all its equity interests in Zhongzhi. Disposal loss of approximately RMB16,934,000 was recognised as "other (losses)/gains, net" in the consolidated statement of comprehensive income for the six months ended June 30, 2022.

NOTES TO THE INTERIM FINANCIAL INFORMATION

11 Finance costs

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest expenses on borrowings	28,276	30,103
Interest expenses on lease liabilities (Note 16)	5,819	2,278
Foreign exchange (gain)/loss, net	(2,491)	2,180
	31,604	34,561

12 Income tax expense

(a) Cayman Islands corporate income tax (“CIT”)

The Company was not subject to any taxation in the Cayman Islands for the six months ended June 30, 2022 and 2021.

(b) Hong Kong profit tax

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%. The operations in Hong Kong incurred net accumulated operating losses for income tax purposes and no income tax provision was recorded for the periods presented.

(c) PRC corporate income tax

CIT provision was made on the estimated assessable profit of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the periods presented.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the periods presented according to the applicable CIT Law.

The preferential tax rate of 15% is applicable to a subsidiary located in certain area of the Mainland of China upon fulfillment of certain requirements of the respective local government.

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 Income tax expense (Continued)

(c) PRC corporate income tax (Continued)

According to the relevant tax circulars issued by the PRC tax authorities, a subsidiary of the Group is subject to a reduced preferential CIT rate of 15% for the periods from 2021 to 2025.

The amount of income tax charged to the consolidated statement of comprehensive income represents:

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current income tax	86,339	366,673
Deferred income tax	21,821	(82,245)
Income tax expense	108,160	284,428

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Profit before income tax	340,436	1,365,378
Share of profit of associates and joint ventures	(120,831)	(115,939)
Tax calculated at PRC statutory tax rate of 25%	54,901	312,360
Effects of respective tax rates applicable to different subsidiaries of the Group	(8,480)	4,542
Unrecognised deferred income tax assets	4,610	44,682
Reversal of deferred income tax liabilities arising from sale of a joint venture	–	(29,840)
Utilisation of previously unrecognised deferred income tax assets	(6,441)	(26,374)
Non-deductible expenses less non-taxable income	89,964	2,713
Research and development tax credit	(26,394)	(23,655)
Income tax expense	108,160	284,428

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 Earnings per share

- (a) Basic earnings per share is calculated by dividing the profit attributable to the Company's equity holders by the weighted average number of ordinary shares in issue during the periods.

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net profit attributable to the equity holders of the Company	228,545	1,082,742
Weighted average number of ordinary shares outstanding (thousand)	1,011,137	1,005,546
Basic earnings per share (expressed in RMB per share)	0.23	1.08

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

For the six months ended June 30, 2022 and 2021, the Company had the dilutive potential ordinary shares of restricted shares units ("RSUs") granted to employees. For the RSUs, a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs were assumed to have been fully vested and released from restrictions with no impact on earnings.

The impact of potential ordinary shares to be issued by an associate of the Group into ordinary shares of the associate was included in the computation of earnings per share for the six months ended June 30, 2022 and 2021 as the impact would be dilutive.

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 Earnings per share (Continued)

(b) (Continued)

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net profit attributable to the equity holders of the Company	228,545	1,082,742
Impact of an associate's potential ordinary shares	(2,075)	(161)
Net profit used to determine earnings per share	226,470	1,082,581
Weighted average number of ordinary shares outstanding (thousand)	1,011,137	1,005,546
Adjustments for share-based compensation – RSUs (thousand)	3,252	9,423
Weighted average number of ordinary shares for diluted earnings per share (thousand)	1,014,389	1,014,969
Diluted earnings per share (expressed in RMB per share)	0.22	1.07

14 Dividends

No dividends was paid or declared by the Company during the six months ended June 30, 2022 and 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

15 Property, plant and equipment

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)							
Six months ended							
June 30, 2022							
Opening net book amount as of January 1, 2022	26,606	7,760	3,092	1,914	–	5,751	45,123
Additions	5,271	124	53	62	7,274	19,480	32,264
Transfer from construction in progress	271	8	–	–	–	(279)	–
Disposals	(208)	–	–	–	–	–	(208)
Depreciation	(5,679)	(3,084)	(497)	(338)	–	–	(9,598)
Disposal of a subsidiary (Note 10(b))	(64)	(10)	(1)	(180)	–	–	(255)
Currency translation differences	2	–	–	–	–	–	2
Closing net book amount as of June 30, 2022	26,199	4,798	2,647	1,458	7,274	24,952	67,328

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)							
Six months ended							
June 30, 2021							
Opening net book amount as of January 1, 2021	23,837	10,799	3,360	1,461	–	133	39,590
Additions	6,287	2,500	409	1,346	–	498	11,040
Transfer from construction in progress	–	218	–	–	–	(218)	–
Disposals	(108)	–	(12)	–	–	–	(120)
Depreciation	(5,303)	(3,287)	(491)	(398)	–	–	(9,479)
Currency translation differences	(2)	6	–	–	–	–	4
Closing net book amount as of June 30, 2021	24,711	10,236	3,266	2,409	–	413	41,035

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Right-of-use assets		
Properties	227,205	281,451
Vehicle	–	14
	227,205	281,465
Lease liabilities		
Current	83,764	72,573
Non-current	164,122	201,850
	247,886	274,423

Additions to the right-of-use assets during the six months ended June 30, 2022 were approximately RMB560,000 (six months ended June 30, 2021: RMB59,500,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

16 Leases (Continued)

(b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets		
Properties	(49,913)	(32,350)
Vehicle	(14)	(85)
Equipment	–	(7)
	(49,927)	(32,442)
Interest expense (included in finance costs)	5,819	2,278
Expense relating to short-term leases (included in general and administrative expenses)	2,278	1,700
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in general and administrative expenses)	266	149
	8,363	4,127

For the six months ended June 30, 2022, the total cash outflow for leases was approximately RMB27,338,000 (six months ended June 30, 2021: RMB35,670,000).

(c) The Group's leasing activities and how these are accounted for

The Group leases various properties, vehicle and equipment. Rental contracts are typically made for fixed periods of no longer than 8 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 Intangible assets

	Goodwill RMB'000	Non- compete agreement RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
(Unaudited)								
Six months ended June 30, 2022								
Opening net book amount as of January 1, 2022	6,632,807	27,590	578,042	199,318	7,332	8,282	2,128	7,455,499
Additions	-	-	2	100,637	-	1,797	-	102,436
Amortisation	-	(7,322)	(10,401)	(94,979)	(7,332)	(3,218)	(20)	(123,272)
Currency translation differences	-	-	-	2,315	-	-	-	2,315
Closing net book amount as of June 30, 2022	6,632,807	20,268	567,643	207,291	-	6,861	2,108	7,436,978

	Goodwill RMB'000	Non- compete agreement RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
(Unaudited)								
Six months ended June 30, 2021								
Opening net book amount as of January 1, 2021	6,637,471	43,023	597,816	367,885	21,999	5,660	2,209	7,676,063
Additions	-	-	377	99,152	-	2,863	-	102,392
Amortisation	-	(7,717)	(10,368)	(235,210)	(7,333)	(2,022)	(51)	(262,701)
Impairment provision	-	-	-	(25,776)	-	-	-	(25,776)
Liquidation of a subsidiary	(4,664)	-	-	-	-	-	-	(4,664)
Currency translation differences	-	-	-	(1,462)	-	-	-	(1,462)
Closing net book amount as of June 30, 2021	6,632,807	35,306	587,825	204,589	14,666	6,501	2,158	7,483,852

Impairment tests for goodwill

As of June 30, 2022 and December 31, 2021, goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Online business	3,715,659	3,715,659
Acquired TV and film business	2,917,148	2,917,148
	6,632,807	6,632,807

NOTES TO THE INTERIM FINANCIAL INFORMATION

17 Intangible assets (Continued)

Impairment tests for goodwill (Continued)

During the six months ended June 30, 2022 and 2021, impairment review on goodwill arising from acquired TV and film business had been conducted by the management according to IAS 36 “Impairment of assets”. The Group has engaged an independent external valuer to assist in performing the goodwill impairment assessments.

For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal (“FVLCD”) and value-in-use calculations. As of June 30, 2022 and June 30, 2021, the recoverable amount of goodwill had been determined based on the value-in-use calculation. The value-in-use calculations adopt cash flow projections derived from expected business operating covering a five-year period. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control processes established by the Group. The management leveraged their extensive experiences in the industries and developed forecasts based on past performance and their expectation of future business projection and market developments.

Based on the results of the impairment assessments, no impairment loss on the goodwill relating to the acquired TV and film business had been recognised as of June 30, 2022 and 2021.

Impairment tests for the copyrights of contents

During the six months ended June 30, 2021, indicators of impairment prevailed for copyrights of contents, following the changes in the overseas market environment of the underlying business. Impairment review on the copyrights of contents owned by a subsidiary of the Group, which was mainly engaged in the operations of an overseas online reading platform, had been conducted by the management as of June 30, 2021 according to IAS 36 “Impairment of assets”. As a result, the recoverable amount of the copyrights determined based on the value-in-use calculations was assessed to be higher than the respective carrying amount. Accordingly, the Group made an impairment provision of approximately RMB25,776,000 against the carrying amount of such copyrights. During the six months ended June 30, 2022, no additional impairment on the above mentioned copyrights of contents had been recognised.

NOTES TO THE INTERIM FINANCIAL INFORMATION

18 Investments in associates and joint ventures

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Investments in associates (a)	488,425	490,500
Investments in joint ventures (b)	567,236	441,778
	1,055,661	932,278

(a) Investments in associates

	Six months ended June 30, 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	490,500	248,206
Additions (Note i)	1,903	10,000
Share of net (losses)/profits of associates	(4,627)	1,011
Share of other comprehensive loss of associates	(458)	(2,364)
Currency translation differences	1,107	(25,913)
At the end of the period	488,425	230,940

Note:

- i. During the six months ended June 30, 2022, the Group made an investment in a company engaged in advertising business at a total consideration of approximately RMB1,903,000. As of June 30, 2022, the Group's equity interest in this associate was 30%. The Group has significant influence, but not control, over the investee company's operations.

(b) Investments in joint ventures

	Six months ended June 30, 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	441,778	350,370
Share of net profit of the joint ventures	125,458	114,928
Share of other comprehensive income of a joint venture	–	12
Currency translation differences	–	(177)
At the end of the period	567,236	465,133

NOTES TO THE INTERIM FINANCIAL INFORMATION

19 Financial instruments by category

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value:		
– Financial assets at fair value through profit or loss (“FVPL”) (current and non-current portions) (Note 20)	958,041	1,310,030
– Financial asset at fair value through other comprehensive income (“FVOCI”) (Note 21)	8,251	14,073
Financial assets at amortised cost:		
– Trade and notes receivables (Note 27)	2,541,302	2,747,240
– Deposits and other assets (current and non-current portions) (Note 24)	602,431	518,644
– Term deposits (current and non-current portions)	2,414,890	2,678,031
– Cash and cash equivalents	4,735,717	4,528,412
	11,260,632	11,796,430
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 33)	942,078	1,151,854
Financial liabilities at amortised cost:		
– Trade payables (Note 31)	1,188,878	1,127,368
– Lease liabilities (current and non-current portions) (Note 16)	247,886	274,423
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 32)	933,399	830,611
– Borrowings (current and non-current portions) (Note 30)	594,884	1,175,318
	3,907,125	4,559,574

NOTES TO THE INTERIM FINANCIAL INFORMATION

20 Financial assets at fair value through profit or loss

(a) Classification of financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss:

- debt instruments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income;
- equity investments that are held for trading; and
- equity investments for which the entity has not elected to recognise fair value gains or losses through other comprehensive income.

FVPL include the following:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Included in non-current assets:		
Investments in redeemable shares	930,593	1,254,149
Investments in unlisted entities	12,000	12,000
Investment in a listed entity	10,948	14,047
Investments in television series and films	–	29,834
	953,541	1,310,030
Included in current assets:		
Investments in television series and films	4,500	–
	958,041	1,310,030

NOTES TO THE INTERIM FINANCIAL INFORMATION

20 Financial assets at fair value through profit or loss (Continued)

(a) Classification of financial assets at fair value through profit or loss (Continued)

Movement of FVPL is analysed as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	1,310,030	915,318
Additions (Note i)	18,991	304,593
Changes in fair value recognised as other (losses)/gains, net	(390,886)	55,037
Changes in fair value recognised as revenues	1,897	(1,684)
Disposal	–	(1,497)
Settlement of investment in films (Note ii)	(9,231)	–
Currency translation difference	27,240	(1,525)
At the end of the period	958,041	1,270,242

Notes:

- i. In March 2022, the Group invested in redeemable convertible preferred shares of a third-party company that was principally engaged in the designer toys business at a purchase consideration of USD3,000,000 (equivalent to approximately RMB18,991,000), which represented 1.33% equity interest of the investee on an outstanding and fully converted basis.
- ii. The Group invested in certain television series and films operated by third parties. These investments entitle the Group to share certain percentage of income to be generated from the related television series and films based on the Group's investment portion as specified in respective investment agreements. Since the Group only acts as a financial investor, it is not considered to be involved in the production process and these investments have been accounted for at their fair values. During the six months ended 30 June 2022, the Group shared the income generated from certain television series and films amounting to approximately RMB9,231,000.

NOTES TO THE INTERIM FINANCIAL INFORMATION

21 Financial asset at fair value through other comprehensive income

FVOCI include the following:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Included in non-current assets:		
Investment in a listed entity	8,251	14,073

Movement of FVOCI is analysed as follows:

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
At the beginning of the period	14,073	–
Addition (Note a)	–	33,050
Changes in fair value	(6,571)	5,912
Currency translation difference	749	(412)
At the end of the period	8,251	38,550

Note:

- (a) In March 2021, the Group made an investment in 48,000 ordinary shares of an online platform at a total consideration of approximately Hong Kong Dollars ("HKD") 39,000,000 (equivalent to approximately RMB33,050,000). The investment is not held for trading and management had elected to account for it at FVOCI.

NOTES TO THE INTERIM FINANCIAL INFORMATION

22 Deferred income taxes

The movements in deferred income tax assets and liabilities during the periods are as follows:

	Provision for inventory obsolescence and doubtful receivables RMB'000	Tax losses RMB'000	Intangible assets acquired in business combination RMB'000	Provision for investments in associates and a joint venture RMB'000	Accrued expense, lease and accelerated amortisation of intangible assets RMB'000	Deemed disposal of an investee company RMB'000	Other temporary differences RMB'000	Total RMB'000
(Unaudited)								
As of January 1, 2022	106,319	6,794	(146,630)	42,612	79,107	-	34,327	122,529
Recognised in the profit or loss	(15,876)	16,922	4,346	-	(19,419)	-	(7,794)	(21,821)
As of June 30, 2022	90,443	23,716	(142,284)	42,612	59,688	-	26,533	100,708
(Unaudited)								
As of January 1, 2021	92,486	12,108	(156,248)	38,742	16,052	(29,840)	27,616	916
Recognised in the profit or loss	(22,637)	(7,737)	5,117	-	52,540	29,840	25,122	82,245
As of June 30, 2021	69,849	4,371	(151,131)	38,742	68,592	-	52,738	83,161

Deferred income tax assets are recognised for tax losses carried forward and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As of June 30, 2022, the Group had not recognised deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB148,762,000 (December 31, 2021: RMB151,643,000). These tax losses will primarily expire from 2022 to 2026.

NOTES TO THE INTERIM FINANCIAL INFORMATION

23 Share capital and share premium

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)					
As of January 1, 2022	1,022,026,549	649	16,412,728	(17,450)	16,395,927
Transfer of vested RSUs	–	–	(41,121)	–	(41,121)
Issue of ordinary shares as consideration for a business combination (Note 33)	1,007,123	–	31,419	–	31,419
As of June 30, 2022	1,023,033,672	649	16,403,026	(17,450)	16,386,225

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)					
As of January 1, 2021	1,015,781,716	645	16,259,688	(9)	16,260,324
Transfer of vested RSUs	–	–	(2,052)	2	(2,050)
Issue of ordinary shares as consideration for a business combination (Note 33)	3,023,963	2	202,027	–	202,029
Repurchase of shares for RSU scheme (Note a)	–	–	–	(12,201)	(12,201)
As of June 30, 2021	1,018,805,679	647	16,459,663	(12,208)	16,448,102

Note:

- (a) In June 2021, the Group procured a professional trustee appointed by the group to repurchase a total of 170,000 ordinary shares that were listed on The Stock Exchange of Hong Kong Limited for its 2020 Restricted Share Unit Scheme. The total amount paid to repurchase these ordinary shares was approximately HKD14,731,000 (approximately RMB12,201,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

24 Prepayments, deposits and other assets

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Non-current:		
Deferred compensation cost (Note 33 (a))	133,581	160,006
Prepayments to directors, actors and writers (Note a)	65,570	77,131
Deposits and prepayments	35,311	19,584
	234,462	256,721
Current:		
Amounts due from related parties (Note 34)	375,256	296,835
Receivables from co-producers and others for production of television series and films	187,593	155,541
Prepaid corporate income tax	131,641	132,552
Recoverable value-added tax	114,879	119,687
Costs to fulfil contracts	105,799	92,364
Prepayments for production of television series and films	87,871	68,874
Prepayments to vendors and online writers	52,833	49,671
Prepayments to directors, actors and writers (Note a)	23,350	23,350
Loan to a former subsidiary (Note b)	23,300	–
Rental and other deposits	15,568	19,147
Interests receivable	16,658	11,095
Prepayments for overseas licensed film rights	6,287	6,287
Royalty advances	5,582	4,272
Staff advances	2,694	2,617
Others	18,765	49,679
	1,168,076	1,031,971

Notes:

- (a) As of June 30, 2022 and December 31, 2021, the balance represented the prepayments made to directors, actors and writers in connection with the Group's production of television series and film rights.
- (b) As of June 30, 2022, the loan lent to a former subsidiary bore interest at the rate of 1.35% per annum. The principal and the interest of the loan would be repayable in full in March 2023.

The directors of the Group considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as of June 30, 2022 and December 31, 2021. At each period end, deposits and other assets are assessed for impairment with respect to their recoverability by considering the credit status of the payees.

NOTES TO THE INTERIM FINANCIAL INFORMATION

25 Inventories

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Adaptation rights and scripts	698,185	593,374
Raw materials	3,415	11,830
Work in progress	1,648	4,260
Inventories in warehouse	32,664	70,539
Inventories held with distributors on consignment	33,630	71,106
Others	3,163	1,859
	772,705	752,968
Less: provision for inventory obsolescence	(34,434)	(99,204)
	738,271	653,764

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the six months ended June 30, 2022, the cost of inventories recognised as expenses amounted to approximately RMB71,210,000 (six months ended June 30, 2021: RMB87,025,000) and the provision for impairment of inventories amounted to approximately RMB31,058,000 (six months ended June 30, 2021: RMB14,589,000). All these expenses and impairment charge have been included in "cost of revenues" in the consolidated statements of comprehensive income.

During the six months ended June 30, 2022, the provision for impairment of inventories as utilised upon the Group's ultimate sales of the related inventories amounted to approximately RMB7,276,000 (six months ended June 30, 2021: RMB23,870,000). There was not any reversal or over-provision recognised in profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

26 Television series and film rights

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Television series and film rights		
– production in progress	778,091	813,633
– completed	166,354	277,259
	944,445	1,090,892

	Production in progress RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2022	813,633	277,259	1,090,892
Additions	304,942	–	304,942
Transfer from production in progress to completed	(340,484)	340,484	–
Recognised in cost of revenues (Note a)	–	(451,389)	(451,389)
As of June 30, 2022 (Note b)	778,091	166,354	944,445

	Under production RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)			
As of January 1, 2021	586,173	54,323	640,496
Additions	485,582	–	485,582
Transfer from production in progress to completed	(207,822)	207,822	–
Transfer from adaptation rights and scripts to production in progress	48,456	–	48,456
Recognised in cost of revenues (Note a)	–	(223,574)	(223,574)
As of June 30, 2021 (Note b)	912,389	38,571	950,960

Notes:

- (a) During the six months ended June 30, 2022, no impairment loss of television series and film rights had been recognised (six months ended June 30, 2021: RMB4,343,000).
- (b) The balance of television series and film rights production in progress represented costs associated with the production of television series and films, including remuneration of the directors, casts and the production crew, costumes, insurance, make-up and hairdressing, as well as rental of camera and lighting equipment etc. Television series and film rights production in progress are transferred to television series and film rights completed upon completion of production.

NOTES TO THE INTERIM FINANCIAL INFORMATION

27 Trade and notes receivables

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Trade receivables	2,525,029	2,895,236
Notes receivables (Note a)	188,910	1,315
	2,713,939	2,896,551
Less: allowance for impairment of trade and notes receivables	(172,637)	(149,311)
	2,541,302	2,747,240

Note:

- (a) During the six months ended June 30, 2022, trade receivables of RMB192,200,000 had been reclassified to notes receivables due to the finance arrangement made by a debtor. As of June 30, 2022, notes receivables of RMB192,200,000 (December 31, 2021: nil) had been discounted for cash with a financial institution with recourse, where substantially the risks and rewards of ownership had not been transferred. Since the Group has continuing involvement in the transferred assets, these discounted notes receivable were therefore not derecognised. Meanwhile, the Group also had short-term bank borrowings of RMB192,200,000 which were secured by the above mentioned notes receivables. The loans carry fixed interest at a rate of 4.2% per annum.

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. The Group also performed assessment on an individual basis, when it becomes aware of an increase in credit risk for the individual financial instrument. 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 their fair value as of June 30, 2022 and December 31, 2021.

The Group usually allows a credit period of 30 to 120 days to its customers. Aging analysis of trade and notes receivables (net of allowance for doubtful debts) based on recognition date is as follows:

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Trade and notes receivables		
– Up to 3 months	1,373,002	1,398,814
– 3 to 6 months	458,996	332,890
– 6 months to 1 year	414,314	468,578
– 1 to 2 years	271,922	526,653
– Over 2 years	23,068	20,305
	2,541,302	2,747,240

NOTES TO THE INTERIM FINANCIAL INFORMATION

28 Other reserves

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option		Statutory surplus reserve fund RMB'000	Investments in joint ventures and associates RMB'000		FVOCI RMB'000	Total RMB'000
			on non- controlling interests RMB'000	Share-based compensation reserve RMB'000		Capital reserve RMB'000			
(Unaudited)									
As of January 1, 2022	34,127	254,278	10,964	950,499	257,984	(40,785)	9,931	(21,897)	1,455,101
Currency translation differences	-	117,898	-	-	-	-	-	-	117,898
Share-based compensation expenses (Note 29)	-	-	-	116,659	-	-	-	-	116,659
Share of other comprehensive loss of associates	-	(458)	-	-	-	-	-	-	(458)
Net loss from change in fair value of FVOCI	-	-	-	-	-	-	-	(6,571)	(6,571)
Acquisition of non-controlling interests (Note a)	-	-	-	-	-	(2,483)	-	-	(2,483)
As of June 30, 2022	34,127	371,718	10,964	1,067,158	257,984	(43,268)	9,931	(28,468)	1,680,146
(Unaudited)									
As of January 1, 2021	34,127	309,781	10,964	762,361	181,807	(40,785)	9,933	-	1,268,188
Currency translation differences	-	(42,248)	-	-	-	-	-	-	(42,248)
Share-based compensation expenses (Note 29)	-	-	-	53,729	-	-	-	-	53,729
Share of other comprehensive loss of associates and a joint venture	-	(2,350)	-	-	-	-	(2)	-	(2,352)
Net gain from change in fair value of FVOCI	-	-	-	-	-	-	-	5,912	5,912
As of June 30, 2021	34,127	265,183	10,964	816,090	181,807	(40,785)	9,931	5,912	1,283,229

Note:

- (a) During the six months ended June 30, 2022, the Group acquired non-controlling interests in the Group's non-wholly owned subsidiary, Ju Zheng Pictures (Tianjin) Co., Ltd., at aggregate considerations of approximately RMB4,899,000, which were settled in cash. The excess of considerations over the aggregate carrying amounts of acquired non-controlling interests was recognized directly in equity as "capital reserve".

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 Share-based payments

(a) RSU schemes of the Group

The Group has adopted two share award schemes, namely, the 2014 RSU Scheme and the 2020 RSU Scheme. Each RSU is settled by transfer of one ordinary share of the Company to the grantee upon a date as soon as practicable after the RSUs vest.

(i) 2014 RSU Scheme

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 purpose of attracting and retaining the best available personnel, and providing additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 RSU Scheme"). The RSUs granted under the 2014 RSU Scheme would 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 modified the vesting condition associated with the 2014 RSU Scheme in a non-beneficial way by adding a non-market performance condition relating to completion of a defined initial public offering of the Company.

On January 17, 2017, the shareholders of the Company approved additional 15,409,901 new ordinary shares be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under the 2014 RSU Scheme became 40,409,091 shares.

Movements in the number of RSUs outstanding under the 2014 RSU Scheme are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2022	7,304,840
Granted	1,781,682
Forfeited	(467,517)
Vested	(968,333)
Outstanding balance as of June 30, 2022	7,650,672
(Unaudited)	
As of January 1, 2021	10,709,518
Granted	694,455
Forfeited	(1,592,494)
Vested	(1,118,900)
Outstanding balance as of June 30, 2021	8,692,579

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 Share-based payments (Continued)

(a) RSU schemes of the Group (Continued)

(ii) 2020 RSU Scheme

The Company adopted a share award scheme on May 15, 2020 to the extent of 45,710,177 ordinary shares of the Company have been set aside for the scheme for the purposes of attracting and retaining the suitable personnel, and providing additional incentives to employees, directors and consultants (the “2020 RSU Scheme”). The RSUs granted under the 2020 RSU Scheme shall become vested with respect to 25% of the RSUs on each of the first four anniversaries of the grant date.

Movements in the number of RSUs outstanding under the 2020 RSU Scheme are as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2022	4,351,636
Granted	–
Forfeited	(419,548)
Vested	(10,962)
Outstanding balance as of June 30, 2022	3,921,126
(Unaudited)	
As of January 1, 2021	3,903,928
Granted	81,436
Forfeited	(463,536)
Vested	–
Outstanding balance as of June 30, 2021	3,521,828

During six months ended June 30, 2022, no RSU was granted to any director of the Company (six months ended June 30, 2021: no RSU was granted to any director of the Company).

The fair value of each RSUs was calculated based on the market price of the Company's shares at the respective grant date.

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 Share-based payments (Continued)

(b) Share option scheme of the Group

Pursuant to a resolution passed at the annual general meeting held on May 24, 2021, the Company adopted a share option scheme (the “2021 Share Option Scheme”). The purpose of the 2021 Share Option Scheme was to recognise the contribution that the participants have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2021 Share Option Scheme is valid and effective for a period of 10 years commencing on May 24, 2021.

On July 10, 2022, 3,806,250 share options granted to certain directors of the Group under the 2021 Share Option Scheme were cancelled. The Group accounted for the cancellation as an acceleration of vesting. Upon the cancellation date, the Group immediately recognised expenses of approximately RMB30,929,000 as general and administrative expenses that otherwise would have been recognised over the remaining service period.

(i) Movements in share options

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Share Option Scheme	
	Average exercise price	Number of options
As of January 1, 2022	HKD76.06	7,811,453
Forfeited during the period	HKD82.85	(59,061)
As of June 30, 2022	HKD76.00	7,752,392
Exercisable as of June 30, 2022	HKD82.85	1,268,750

During the six months ended June 30, 2022, no option was granted or exercised.

NOTES TO THE INTERIM FINANCIAL INFORMATION

29 Share-based payments (Continued)

(b) Share option scheme of the Group (Continued)

(ii) Outstanding share options

Details of the expiry dates, exercise prices and respective numbers of share options which remained outstanding as of June 30, 2022 and December 31, 2021 are as follows:

Grant Date	Expiry Date	Exercise price	Number of share option	
			June 30, 2022	December 31, 2021
July 12, 2021	July 12, 2031	HKD82.85	5,965,853	6,024,914
November 5, 2021	November 5, 2031	HKD53.14	1,786,539	1,786,539
Total			7,752,392	7,811,453
Weighted average remaining contractual life of options outstanding at end of period			9.09 years	9.01 years

The outstanding share options as of June 30, 2022 were divided into four tranches on an equal basis as at their grant dates. The first tranche can be exercised immediately or after a year from the grant date, and the remaining tranches will become exercisable in each subsequent year.

(iii) Fair value of options

The directors of the Company have used the binomial model to determine the fair value of the options as at the respective grant dates, which is to be expensed over the relevant vesting period.

(c) Expected Retention Rate

The Group has to estimate the Expected Retention Rate at the end of the vesting periods of the RSUs and share options in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of June 30, 2022, the Expected Retention Rate of the Group was assessed to be no lower than 92% (June 30, 2021: 100%).

NOTES TO THE INTERIM FINANCIAL INFORMATION

30 Borrowings

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Non-current		
Unsecured		
USD bank borrowings (Note a)	–	382,542
Current		
Unsecured		
RMB bank borrowings (Note b)	–	792,776
USD bank borrowings (Note a)	402,684	–
Secured		
Advances drawn on notes receivables discounted with recourse (Note 27(a))	192,200	–
	594,884	792,776
	594,884	1,175,318

Note:

- (a) As of June 30, 2022 and December 31, 2021, the Group's unsecured long-term bank borrowings consisted of USD60,000,000 fixed rate borrowings bearing interest rate at 1.41% per annum, which would be repayable on February 28, 2023. The borrowings were reclassified to current liabilities as they would be repayable within 12 months after June 30, 2022.
- (b) As of December 31, 2021, the Group's unsecured long-term bank borrowings consisted of RMB300,000,000 fixed rate borrowings bearing interest rate at 5.70% per annum. The long-term borrowings 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. As of December 31, 2021, the borrowing balance of RMB300,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2021, and the full amount had been repaid during the six months ended June 30, 2022.

As of December 31, 2021, the Group's unsecured short-term bank borrowings consisted of RMB492,776,000 fixed-rate borrowings bearing interest rates ranging from 4.85% to 5.10%. These short-term bank borrowings were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

The Group had complied with all of the financial covenants of its borrowing facilities for the six months ended June 30, 2022 and 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

31 Trade payables

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

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
– Up to 3 months	471,946	560,438
– 3 to 6 months	154,222	144,581
– 6 months to 1 year	229,411	134,000
– Over 1 year	333,299	288,349
	1,188,878	1,127,368

32 Other payables and accruals

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Payables of proceeds from license and distribution of television series and films rights as distributor (Note a)	487,834	170,412
Advertising and marketing expense accruals	224,229	238,257
Staff costs and welfare accruals	122,845	219,719
Other tax payable	82,544	120,262
Deposits received from a fellow subsidiary	50,612	215,612
Outsourcing game development fee payable	37,988	32,520
Professional service fee payable	29,068	44,904
Special funds payable	14,005	15,170
Payables related to the acquisition of intangible assets	12,224	11,988
Payments received from co-producer (Note b)	5,708	16,424
Payables to financial investors in television series and films	4,921	15,124
Interests payable	32	1,579
Others	80,783	83,791
	1,152,793	1,185,762

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 and it is obliged to be settled with counterparties within the agreed credit period.
- (b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreements and the Group is obliged to utilise these payments in production.

NOTES TO THE INTERIM FINANCIAL INFORMATION

33 Financial liabilities at fair value through profit or loss

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Non-current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (Note a)	488,000	827,190
Current:		
Contingent consideration payable relating to the acquisition of 100% equity interest of New Classics Media (Note a)	454,078	324,664
	942,078	1,151,854

Note:

- (a) On October 31, 2018, the Group entered into a share purchase agreement ("2018 New Classic Media Share Purchase Agreement") with the 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 consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to a earn-out mechanism that is set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares issued by the Company based on the terms and subject to the conditions set forth in the share purchase agreement.

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 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 five financial years ending December 31, 2024, and is subject to additional conditions and adjustments set forth in the supplemental SPA deed.

The estimated consideration payable arising from the new earn-out mechanism was recognised as "contingent consideration payable". The contingent consideration payable was initially and subsequently measured at fair value based on the valuation results performed by the independent external valuation firm.

Under the supplemental SPA deed, a special purpose vehicle company set up by the founder must return to the Group an amount of approximately RMB216,358,000 on a one-time basis, which is equal to the return of consideration under the original earn out mechanism, if that founder ceases or terminates his employment or breaches the deed of non-competition. As such, approximately RMB216,358,000 was considered and accounted for as remuneration for his future services and was recognised as "deferred compensation costs" in the consolidated statement of financial position, on the Effective Date. For the six months ended June 30, 2022, the compensation costs amounting to approximately RMB26,424,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income (for the six months ended June 30, 2021: RMB26,424,000).

In addition, out of the total aforementioned consideration, an aggregate RMB20,000,000 was a contingent payment which would be automatically forfeited if these selling shareholders who are also the employees of New Classics Media terminate their employments. It was also considered and accounted as remuneration for their future services. During the six months ended June 30, 2022, RMB1,400,000 (for the six months ended June 30, 2021: RMB1,000,000) had been deducted from the consideration payment since certain management employees had left New Classics Media. The compensation costs amounting to approximately RMB1,825,000 were charged to "general and administrative expenses" in the consolidated statement of comprehensive income during the six months ended June 30, 2022 (for the six months ended June 30, 2021: RMB1,875,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

Name of major related parties	Relationship with the Company
Tencent	Ultimate holding company
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Communication Co., Ltd.	Fellow subsidiary
Tencent Film Culture Communication Co., Ltd.	Fellow subsidiary
Shenzhen Tencent Animation Co., Ltd.	Fellow subsidiary
Tencent Music Entertainment Technology (Shenzhen) Co., Ltd.	Fellow subsidiary
Tencent Music Entertainment Group (“Tencent Music”)	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Guangzhou Kugou Technology Co., Ltd.	Fellow subsidiary
Tencent Technology (Chengdu) Co., Ltd.	Fellow subsidiary
Tencent Cloud Computing (Beijing) Co., Ltd.	Fellow subsidiary
Aceville Pte. Ltd	Fellow subsidiary
Sky Mutual Entertainment (Tianjin) Culture Communication Co., Ltd.	Joint venture of the Group
Ookbee U Co., Ltd.	Associate of the Group
Munpia Inc.	Associate of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group
Hangzhou Wawayu Animation Design Co., Ltd.	Associate of the Group
Shanghai Xunmeng Information Technology Co., Ltd.	Associate of the ultimate holding company
Beijing Zhizhetianxia Technology Co., Ltd.	Associate of the ultimate holding company
Future TV Co., Ltd.	Associate of the ultimate holding company
Beijing Kwai Fu Advertising Co., Ltd.	Associate of the ultimate holding company
Shanghai Mengqiu Network Technology Co., Ltd.	Associate of the ultimate holding company
Beijing Kuaishou Technology Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 Related party transactions (Continued)

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

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fellow subsidiaries	629,622	825,219
Associates of the ultimate holding company (Note)	14,096	201,639
Associates of the Group	2,847	7,307
Joint venture of the Group	–	14,406
	646,565	1,048,571

Note:

For the related party transactions disclosed in Note 34, 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, the related party transactions of which are disclosed separately.

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

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fellow subsidiaries	237,614	168,778
Associates of the Group	34,699	30,899
Associates of the ultimate holding company	28,240	4,609
Joint ventures of the Group	15,566	2,264
	316,119	206,550

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 Related party transactions (Continued)

(c) Sale of equity interest in Shenzhen Lazy Online Technology Co., Ltd. (“Lazy Online”)

The Group used to own 40% legal ownership interest of Lazy Online. The Group used the equity method to account for the investment in Lazy Online. In February 2021, the Group sold all of its equity interest in Lazy Online at a total consideration of approximately RMB1,076,817,000 to Tencent Music. The gain on disposal of this investment amounting to approximately RMB1,076,817,000 was recognised as “other (loss)/gains, net” in the consolidated statement of comprehensive income. Amounts recorded in “other comprehensive income” relating to changes in Lazy Online’s own credit risk of approximately RMB9,911,000 were not recycled in the consolidated statement of comprehensive income.

(d) Loan facility provided by a fellow subsidiary

In November 2019, one of the Group’s subsidiaries, 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 from a subsidiary of Tencent to Shanghai Yueting. In November 2021, the above mentioned loan facility expired according to the loan facility agreement and the Group had not utilised any amount of the loan facility provided by that fellow subsidiary.

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

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Trade receivables		
Fellow subsidiaries (Note i)	1,260,115	1,599,474
Associates of the ultimate holding company	27,661	73,168
Associates of the Group	2,359	2,425
Joint ventures of the Group	591	591
	1,290,726	1,675,658

Note:

- i. Trade receivables from fellow subsidiaries are mainly arising from the collection of payments from the Group's customers on behalf of the Group and license of television series.

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 Related party transactions (Continued)

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

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Prepayments, deposits and other receivables		
Fellow subsidiaries	368,709	290,244
Associates of the ultimate holding company	5,464	5,508
Associates of the Group	1,083	1,083
	375,256	296,835

Receivables due from related parties are unsecured, interest-free and repayable on demand.

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Trade payables		
Fellow subsidiaries	110,893	111,051
Joint ventures of the Group	16,508	1,750
Associates of the ultimate holding company	9,762	24,135
Associates of the Group	2,090	7,404
	139,253	144,340

	As of June 30, 2022 RMB'000 (Unaudited)	As of December 31, 2021 RMB'000
Other payables and accruals		
Fellow subsidiaries	301,752	298,783
Associates of the ultimate holding company	46,141	57,118
Associates of the Group	288	329
	348,181	356,230

Payables due from related parties are unsecured, interest-free and payable on demand.

NOTES TO THE INTERIM FINANCIAL INFORMATION

34 Related party transactions (Continued)

(f) Key management personnel compensation

	Six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Salaries, wages and bonuses	1,680	2,277
Other social security costs, housing benefits and other employee benefits	–	32
Pension costs - defined contribution plans	–	22
Share-based compensation expenses	23,358	2,967
	25,038	5,298

35 Subsequent events

Except for the event as disclosed in note 29(b), there were no other material subsequent events occurred after June 30, 2022.

DEFINITION

“2020 Restricted Share Unit Scheme”	:	a restricted share unit scheme of the Company adopted on May 15, 2020;
“Administrator”	:	the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board;
“Audit Committee”	:	the audit committee of the Company;
“Auditor”	:	PricewaterhouseCoopers, the external auditor of the Company;
“Award(s)”	:	the RSU(s) granted under the RSU Plan;
“Award Agreement”	:	the agreement evidencing the grant of the Awards;
“Board”	:	the board of Directors 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;
“CG Code”	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
“China” or the “PRC”	:	the People’s Republic of China;
“Company”, “our Company”, “the Company” or “China Literature”	:	China Literature Limited (阅文集团) (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;
“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;
“DAUs”	:	daily active users who access our platform through our products or our self-operated channels on Tencent products at least once during the day in question;
“Director(s)”	:	the director(s) of our Company;





DEFINITION

“GMV”	:	gross merchandise value, the total value of all orders for products placed on;
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
“HKD”	:	the lawful currency of Hong Kong;
“Hong Kong”	:	the Hong Kong Special Administrative Region of the People’s Republic of China;
“IFRS”	:	International Financial Reporting Standards;
“IP”	:	intellectual property;
“JPY”	:	Japanese Yen, the law currency of Japan;
“Listing Date”	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Main Board”	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
“MAUs”	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
“Model Code”	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
“MPUs”	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;

DEFINITION

“New Classics Media” or “NCM”	:	New Classics Media Holdings Limited, previously known as “Qiandao Lake Holdings Limited”, a company established in Cayman Islands on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
“our online literature platform” or “our platform”	:	all of online products, channel and content operated by China Literature, including but not limited to mobile apps, WAPs, websites and various channels;
“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;
“reporting period”	:	the six months ended June 30, 2022;
“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
“SGD”	:	the lawful currency of Singapore;
“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);
“Shenzhen Lanren” or “Lazy Online”	:	Shenzhen Lanren (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;
“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;



DEFINITION

“Tencent”	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700);
“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;
“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;
“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; and
“USD”	:	the lawful currency of the United States.



