

China Literature Announces 2017 Annual Results

Hong Kong, March 19, 2018 – China Literature Limited (“China Literature” or “the Company”, stock code: 0772), a leading online literature platform in China, today announced the audited consolidated annual results for the year ended December 31, 2017.

Key Financial Highlights:

- Total revenues increased by 60.2% from RMB2.6 billion in 2016 to RMB4.1 billion (USD626.7 million¹) for the year ended December 31, 2017.
- Gross profit increased by 96.8% from RMB1.1 billion in 2016 to RMB2.1 billion (USD317.6 million) in 2017. Gross margin increased from 41.3% in 2016 to 50.7% in 2017.
- Operating profit increased sharply from RMB33.3 million in 2016 to RMB510.8 million (USD78.2 million) in 2017. Operating margin increased from 1.3% in 2016 to 12.5% in 2017.
- Net profit attributable to equity holders of the Company increased from RMB36.7 million in 2016 to RMB556.1 million (USD85.1 million) in 2017. Net profit attributable to equity holders of the Company as a percentage of revenues increased from 1.4% in 2016 to 13.6% in 2017.
- Basic earnings per share were RMB0.74 in 2017. Diluted earnings per share were RMB0.72 in 2017.

Key Operational Highlights:

- Average monthly active users (“MAUs”) for the year ended December 31, 2017 increased by 12.7% year-over-year to 191.5 million – 179.4 million on mobile and 12.1 million on PCs.
- Average monthly paying users (“MPUs”) for the year ended December 31, 2017 increased by 33.7% year-over-year to 11.1 million.
- Monthly average revenue per paying user (“ARPU”) increased by 28.2% year-over-year to RMB22.3 (USD3.4).

Mr. Wu Wenhui, Co-Chief Executive Officer of China Literature stated, “We made significant progress across a number of strategic initiatives in 2017 that reinforced our leadership position and enriched our thriving ecosystem. We expanded our original content offerings, improved user experience and broadened distribution channels, laying a solid foundation for the long-term growth of our online reading business. China Literature remains committed to its mission of ‘Create Value for Writers and Bring Literature to People’ as it strives to build the world’s best platform for writers and readers to enjoy creative endeavors.”

Mr. Liang Xiaodong, Co-Chief Executive Officer of China Literature added, “Our intellectual property (‘IP’) operations business performed well during the year as we sub-licensed valuable literature works for adaption into other formats and increased our involvement in the adaptations. We extended the monetization cycles of many of our online literary titles by adapting them into TV and web series, animations, online games and films. We believe there is great growth potential in China’s online literature market and downstream entertainment industries. Going forward, we will continue to take advantage of market opportunities and look for additional ways to monetize our IPs and expand our market share as we get more involved in the development of entertainment products.”

¹ Figures stated in USD are based on USD1 to RMB6.5342

2017 Financial Review

- Online reading: Revenues from online reading increased by 73.3% to RMB3,420.6 million (USD523.5 million) for the year ended December 31, 2017 on a year-over-year basis. Revenues from online reading from our products and self-operated channels increased by 71.4% to RMB2,955.5 million (USD452.3 million) in 2017. The increase was mainly driven by the growth in both the number of paying users and ARPU, largely as a result of our users' growing readiness to pay for premium online literature content and the continuous increase in our user engagement. Average MPUs increased by 33.7% year-over-year to 11.1 million. Monthly ARPU increased by 28.2% year-over-year to RMB22.3 (USD3.4). Average MAUs increased by 12.7% year-over-year to 191.5 million, of which MAUs on our platform increased from 80.8 million in 2016 to 90.9 million in 2017, and MAUs on the self-operated channels increased from 89.1 million in 2016 to 100.6 million in 2017. Paying ratio increased from 4.9% in 2016 to 5.8% in 2017. Revenues from online reading on third-party platforms increased by 86.0% year-over-year to RMB465.1 million (USD71.2 million) in 2017, primarily driven by our expanded network of third-party distribution channels as well as increased revenues generated from most of our existing third-party distribution channels.
- IP operations: Revenues from IP operations increased by 48.0% to RMB366.2 million (USD56.0 million) for the year ended December 31, 2017 on a year-over-year basis. The increase was primarily due to the increase of revenues from licensing copyrights for the adaptation of TV and web series, animations, online games as well as films, the growth and strengthening of our content, its growing commercial value, the rising demand from our content adaptation partners for our high quality literary titles, as well as our increasing pricing and bargaining power in terms of licensing copyrights to content adaptation partners.
- Physical books and others: Revenues from physical books and others were RMB308.3 million (USD47.2 million) in 2017, decreased from RMB335.4 million in 2016. The decrease was mainly due to a decline of revenue from physical books as we synthesized and adjusted our offline physical book business line and distribution channels in 2017. Our revenues from others are mainly derived from online games and online advertising services.

2017 Other Key Financial Information

- Share-based compensation expenses increased from RMB78.0 million in 2016 to RMB137.4 million (USD21.0 million) in 2017.
- Adjusted EBITDA increased by 311.7% to RMB759.3million (USD116.2 million) in 2017.
- Adjusted profit attributable to equity holders of the Company increased by 746.7% to RMB721.8 million (USD110.5 million) in 2017.
- As of December 31, 2017, the Company had net cash of RMB8,131.7 million (USD1,244.5 million).

2017 Business Review

As a result of our systematic recruitment, support, and marketing of new and established writers, we were able to engage many new creative writers during the year and substantially expand our content library. Our supports for writers included offline training programs and seminars, online interaction with editors, and customized marketing approaches with exposure on TV channels, press conferences and recognition with

various awards. These efforts contributed to the expanded number of writers on our platform, which amounted to 6.9 million as of December 31, 2017. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 43.0 billion individual characters were added on our platform during 2017.

For our original content offerings, in 2017, we introduced new genres, ranging from military, sports, and light novels, to comic fiction, and introduced more e-book versions of film and television novels, such as *Youth (芳华)* and the Chinese version of *The Song of Ice and Fire (冰與火之歌)*. As of December 31, 2017, our content library comprised 10.1 million works, including 9.7 million original literary works created by writers on our platform, 280 thousand works sourced from third-party online platforms and 140 thousand e-books.

On the product side, we worked hard to upgrade our app by introducing a writer's Q&A column and a reader feedback function that allows readers to comment on each paragraph while at the same time communicating with each other, and we enhanced our reader recommendation algorithms using data analytics and artificial intelligence technology. We also upgraded our navigation functions. According to the 2017 China Mobile Internet Report published by *QuestMobile*, our flagship mobile application, the QQ Reading app, was recognized among the "Most User Engaged Mobile Apps in Top 10 Sectors," "Top 10 Most Favorite Mobile Apps in Second Tier Cities" and "Top 9 Cross-Platform Traffic Mobile Apps" during the year of 2017.

We continue to broaden our mobile Internet distribution channels to reach a wider user base. During the year, we partnered with handset companies to pre-install our products on popular handsets from partners such as *Oppo, Vivo, and Huawei*. We have been working with Tencent, our shareholder and strategic partner, to carry our content on a number of its platforms. In addition, we have built up our partnerships with third-party platforms such as *Baidu, Sogou, JD.com, Xiaomi and Kuaimao*.

Our IP business also expanded in 2017. During the course of the year, we sub-licensed over 100 online literary works for adaptation into other entertainment formats. By December 31, 2017, we had established over 200 content adaptation partnerships. We also produced a number of animations based on original content IP during 2017. Among these, *The King's Avatar (全職高手)* was the most successful, and won a number of major awards. We also developed theme characters and theme restaurants around *The King's Avatar*.

In addition, we took our first step into international markets in 2017 with the launch of Webnovel, an English-language website and mobile platform, which brings translated Chinese serial fiction to international readers. We envision future editions in Thai, Korean, Japanese, and Vietnamese through partnerships with local-language Internet platforms. By December 31, 2017, we had built up a library of 124 titles on Webnovel, and attracted 6 million cumulative visitors.

Outlook and Strategies for 2018

Our focus through 2018 will be on further building up the scale and capabilities of our ecosystem, increasing the depth of our content library and expanding it into new genres. We are investing in driving

technological innovation to improve the user experience and are diversifying our distribution channels so that we are able to reach more users. We are increasingly investing in, and involved in, adapting our IP into different content formats. We are committed to building the best platform for our writers and for our readers, which we believe will position us for long term content-driven and user-driven sustainability and growth.

About China Literature Limited

China Literature Limited is a pioneer in the online literature market and operates China's foremost online literature platform. The Company owns nine major branded products. Among these, QQ Reading, a unified mobile content aggregation and distribution platform, is the flagship product. Other products focus on individual genres and their respective fan bases. China Literature's shareholder and strategic partner, Tencent, provides the Company with exclusive content distribution access via its suite of leading mobile and Internet products, including Mobile QQ, QQ Browser, Tencent News and Weixin Reading. The Company also has distribution beyond the Tencent platforms by pre-installing apps on handsets partners such as Oppo, Vivo and Huawei as well as licensing content to third-party partners such as Baidu, Sogou, JD.com and Xiaomi. China Literature monetizes its vast and proprietary content library through online paid reading and content adaptations for a variety of entertainment formats. China Literature's high quality content library is a significant competitive advantage that lies at the core of its business model.

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Non-IFRS Financial Measures

To supplement the consolidated financial statements of the Company prepared in accordance with IFRS, the four non-IFRS measures, namely adjusted operating profit, adjusted EBITDA, adjusted profit for the year and adjusted profit attributable to equity holders of the Company, as additional financial measures, have been presented in this press release. These unaudited non-IFRS financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

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

Forward-Looking Statements

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

CHINA LITERATURE
CONSOLIDATED INCOME STATEMENT

	Year ended December 31,	
	2017	2016
	(RMB in million, unless specified)	
Revenues		
Online reading	3,420.6	1,974.1
Intellectual property operations	366.2	247.4
Physical books	201.1	224.0
Others	107.2	111.4
	4,095.1	2,556.9
Cost of revenues	(2,019.6)	(1,502.0)
Gross profit	2,075.5	1,054.9
	Gross margin	41.3%
Selling and marketing expenses	(965.1)	(734.2)
General and administrative expenses	(710.3)	(421.3)
Other gains, net	110.7	133.9
Operating profit	510.8	33.3
	Operating margin	1.3%
Finance costs	(35.2)	(27.1)
Finance income	103.8	3.9
Share of profit of investments accounted for using equity method	66.3	28.2
Profit before income tax	645.7	38.3
Income tax expense	(83.0)	(7.9)
Profit for the year	562.7	30.4
	Net margin	1.2%
Profit attributable to:		
Equity holders of the Company	556.1	36.7
Non-controlling interests	6.6	(6.3)
	562.7	30.4
Earnings/(loss) per share for profit attributable to equity holders of the Company (in RMB per share)		
- Basic earnings per share	0.74	0.05
- Diluted earnings/(loss) per share	0.72	(0.08)

CHINA LITERATURE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2017	2016
	(RMB in million)	
Profit for the year	562.7	30.4
Other comprehensive (loss)/income:		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	(150.1)	27.2
Total comprehensive income for the year	412.6	57.6
Attributable to:		
Equity holders of the Company	406.0	63.9
Non-controlling interests	6.6	(6.3)
	412.6	57.6

CHINA LITERATURE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,	
	2017	2016
	(RMB in million)	
ASSETS		
Non-current assets		
Property, plant and equipment	36.1	45.0
Intangible assets	4,501.1	4,681.6
Investments accounted for using the equity method	342.3	127.2
Investments in redeemable shares of associates	267.0	106.5
Derivative financial assets	37.6	7.5
Deferred income tax assets	20.3	28.4
Prepayments, deposits and other assets	22.9	20.3
Term deposits	450.9	-
Other investments	25.1	-
	5,703.3	5,016.5
Current assets		
Inventories	222.5	137.9
Trade and notes receivables	760.0	550.0
Prepayments, deposits and other assets	295.8	621.9
Other investments	-	368.3
Term deposits	653.4	-
Cash and cash equivalents	7,502.4	404.9
Assets of disposal group classified as held-for-sale	-	32.2
	9,434.1	2,115.2
Total assets	15,137.4	7,131.7
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	0.6	0.4
Shares held for RSU scheme	-	-
Share premium	12,143.5	5,311.0
Other reserves	309.2	210.9
Retained earnings/(accumulated losses)	168.0	(356.1)
	12,621.3	5,166.2
Non-controlling interests	41.5	42.1
Total equity	12,662.8	5,208.3

	As of December 31,	
	2017	2016
	(RMB in million)	
LIABILITIES		
Non-current liabilities		
Borrowings	475.0	-
Deferred income tax liabilities	193.9	221.0
Deferred revenue	41.6	44.0
	710.5	265.0
Current liabilities		
Put option liability	-	73.5
Borrowings	-	541.6
Trade payables	657.0	419.7
Other payables and accruals	719.5	377.0
Deferred revenue	352.9	232.4
Current income tax liabilities	34.7	10.8
Liabilities of disposal group classified as held-for-sale	-	3.4
	1,764.1	1,658.4
Total liabilities	2,474.6	1,923.4
Total equity and liabilities	15,137.4	7,131.7

CHINA LITERATURE
RECONCILIATIONS OF IFRS TO NON-IFRS RESULTS

	Year ended December 31,	
	2017	2016
	(RMB in million)	
Reconciliation of operating profit to adjusted operating profit:		
Operating profit	510.8	33.3
Add:		
Share-based compensation	137.4	78.0
Net (gain) from investee companies ⁽¹⁾	(158.4)	(33.0)
Amortization of intangible assets ⁽²⁾	63.1	83.0
Net (gain) from convertible bonds ⁽³⁾	-	(92.2)
One-off listing expenses	45.5	-
Impairment provision ⁽⁴⁾	156.3	49.0
Adjusted operating profit	754.7	118.1

	Year ended December 31,	
	2017	2016
	(RMB in million)	
Reconciliation of operating profit to EBITDA and adjusted EBITDA:		
Operating profit	510.8	33.3
Add:		
Other (gains), net	(110.7)	(133.9)
Depreciation of property, plant and equipment	22.3	14.5
Amortization of intangible assets	154.0	192.5
EBITDA	576.4	106.4
Add:		
Share-based compensation	137.4	78.0
One-off listing expenses	45.5	-
Adjusted EBITDA	759.3	184.4

	Year ended December 31,	
	2017	2016
	(RMB in million)	
Reconciliation of profit for the year to adjusted profit for the year:		
Profit for the year	562.7	30.4
Add:		

Share-based compensation	137.4	78.0
Net (gain) from investee companies ⁽¹⁾	(158.4)	(42.2)
Amortization of intangible assets ⁽²⁾	63.1	83.0
Net (gain) from convertible bonds ⁽³⁾	-	(92.2)
Impairment provision ⁽⁴⁾	156.3	49.0
One-off listing expenses	45.5	-
Interest income on IPO subscription deposits	(55.6)	-
Tax effects	(21.0)	(24.9)
Adjusted profit for the year	730.0	81.1

	Year ended December 31,	
	2017	2016
	(RMB in million)	
Reconciliation of profit attributable to equity holders of the Company to adjusted profit attributable to equity holders of the Company:		
Profit attributable to equity holders of the Company	556.1	36.7
Add:		
Share-based compensation	137.4	78.0
Net (gain) from investee companies ⁽¹⁾	(158.4)	(42.2)
Amortization of intangible assets ⁽²⁾	63.1	83.0
Net (gain) from convertible bonds ⁽³⁾	-	(92.2)
Impairment provision ⁽⁴⁾	156.3	49.0
One-off listing expenses	45.5	-
Interest income on IPO subscription deposits	(55.6)	-
Tax effects	(21.0)	(24.9)
Non-controlling interests effects	(1.6)	(2.1)
Adjusted profit attributable to equity holders of the Company	721.8	85.3

Notes:

- (1) Includes fair value gain of investments in redeemable shares of associates, dilution gain, and gain on disposal of investee companies.
- (2) Represents amortization of intangible assets resulting from acquisitions.
- (3) Includes gain on redemption of convertible bonds.
- (4) Includes impairment provision for intangible assets.