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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors
Mr. Wu Wenhui *(Co-Chief Executive Officer)*
Mr. Liang Xiaodong *(Co-Chief Executive Officer)*

### Non-executive Directors
Mr. James Gordon Mitchell *(Chairman)*
Mr. Lin Haifeng
Ms. Li Ming
Mr. Yang Xiang Dong

### 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)*
Mr. Yang Xiang Dong
Ms. Leung Sau Ting Miranda

## Remuneration Committee
Ms. Leung Sau Ting Miranda *(Chairman)*
Mr. Wu Wenhui
Ms. Yu Chor Woon Carol

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

## Strategy and Investment Committee
Mr. Wu Wenhui *(Chairman)*
Mr. Liang Xiaodong
Mr. James Gordon Mitchell
Mr. Lin Haifeng
Ms. Li Ming

## Authorized Representatives
Mr. Liang Xiaodong
Ms. Lai Siu Kuen

## Joint Company Secretaries
Mr. Zhao Jincheng
Ms. Lai Siu Kuen

## Legal Advisors
As to Hong Kong laws:
Clifford Chance
27/F, Jardine House
One Connaught Place
Hong Kong

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

## Auditor
PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

## Compliance Advisor
Guotai Junan Capital Limited
27/F, Low Block Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## Registered Office
The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

# CORPORATE INFORMATION

## 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

31/F, Tower Two
Times Square, 1 Matheson Street
Causeway Bay
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

## Date of Listing

November 8, 2017

# FINANCIAL PERFORMANCE HIGHLIGHTS

| | Six months ended June 30, | | |
|---|---|---|---|
| | **2018** **RMB' 000** **(unaudited)** | 2017 RMB' 000 | Year-over-year (%) |
| **Revenues** | **2,282,900** | 1,924,198 | 18.6 |
| **Gross profit** | **1,196,499** | 962,194 | 24.4 |
| **Operating profit** | **567,365** | 234,214 | 142.2 |
| **Profit before income tax** | **606,244** | 243,691 | 148.8 |
| **Profit for the period** | **504,313** | 213,489 | 136.2 |
| **Profit attributable to equity holders of the Company** | **505,810** | 212,020 | 138.6 |
| **Non-GAAP profit attributable to equity holders of the Company (unaudited)** | **483,481** | 300,566 | 60.9 |

# CHAIRMAN'S STATEMENT

I am pleased to present our interim report for the six months ended 30 June 2018 to our shareholders.

## RESULTS HIGHLIGHTS

Our total revenues for the six months ended June 30, 2018 increased by 18.6% on a year-over-year basis to RMB2,282.9 million. Gross profit over the same period increased by 24.4% to RMB1,196.5 million. Operating profit increased by 142.2% to RMB567.4 million. Profit for the period rose 136.2% to RMB504.3 million.

Our gross margin for the six months ended June 30, 2018 increased to 52.4% from 50.0% in the same period last year. Our operating margin increased to 24.9% from 12.2% in the same period last year. Our net margin increased to 22.1% from 11.1% in the same period last year.

## BUSINESS REVIEW

In the first half of 2018, we sustained and elevated our mission of creating value for writers and bringing literature to people. Our ecosystem is expanding, as reflected by the growth in the number of our writers, literary works, and readers. A critical part of our business model is adapting our literary content portfolio – our intellectual property ("IP") – to other formats including TV drama series, animations and comic books. During the period under review, we accelerated our investment in content adaptation, expanding the range of channels through which we can bring our content to users, and thus generate revenue for our content creators as well as our platform.

Over the six months, we reinforced our leading position in content offerings and expanded the number of high-quality literary works and writers on our platform. In June 2018, 16 out of the top 20 online literary works on Baidu's search rankings originated from our platform. Some of our new literary releases broke performance records for new books in terms of paying subscriptions and virtual gifting activity. We added 15 platinum-tier writers to our platform. We diversified our content genres, with emerging interests, such as comic fiction, competitive sports and science fiction, seeing rapid growth. We are working with China government agencies and the China Writers Association (CWA) at the national, provincial and local levels to nurture and promote works of literary realism by organizing writing competitions. By using such means to multiply the variety and quality of our content, we attracted more users and acquired more source materials for future IP adaptations.

As of June 30, 2018, we had 7.3 million writers on our platform. Our content library totaled 10.7 million literary works, including 10.2 million original literary works created by writers on our platform, 340 thousand works sourced from third-party online platforms and 170 thousand e-books. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 21.7 billion individual characters were added to our platform during the period.

Our MAUs increased from 191.8 million to 213.5 million year-over-year in the first half of 2018, reflecting continuous innovation in the user experience and the sustained expansion of distribution channels. We broadened our mobile distribution channels to reach a wider user base, strengthening our partnership with major handset manufacturers including Oppo, Huawei and Vivo by pre-installing our apps on their new handset models, such as the Oppo Find X series, Huawei Honor 10 series, and Vivo Y67. From March 2018, we began embedding our content within the Tencent Video service, the market leader in China's long-form online video streaming market.

# CHAIRMAN'S STATEMENT

Leveraging our analytics and algorithms, we improved our personalized reader recommendation system during the first half of 2018, strengthening the social components of our platform. For example, we allowed our readers to create their own reading lists and recommend their favorite books to users with similar preferences. We also encouraged our readers to form fan groups for writers, literary works, and characters drawn from literature. Reader-writer interaction has improved significantly as fan groups are motivated to send virtual gifts to their favorite authors and comment or vote on their favorite literary characters and titles to show their support and appreciation.

During the first half of 2018, our IP business achieved significant progress, reflected in the 103.6% year-over-year increase in revenues from our IP operations. We licensed over 60 online literary works for adaptation into other entertainment formats during the period. We accelerated investment in TV productions and web series adapted from our IP, with key projects including Joy of Life (慶餘年) and The Golden Eyes (黃金瞳). We have developed a pipeline of eight projects, covering a variety of genres including romantic comedy, suspense, adventure and warfare. On the animation side, we released new seasons for existing popular co-produced animations including Battle Through the Heavens - Season 2 (鬥破蒼穹-第二季), The King's Avatar - Special Edition (全職高手-特別篇), The Most Fantastic University - Season 2 (CMFU學院-第二季), and Bringing the Nation's Husband Home - Season 3 (國民老公帶回家-第三季), in addition to a pipeline of 10 projects under development. Looking ahead, we will continue to invest in the adaptation and development of our IP into different formats to more fully realize its potential audience and value.

## OUTLOOK

Looking ahead, we will sustain our audience growth through new initiatives, such as the production of graphics and short videos created from our IP. We will enhance social features and reader-writer interactions across our platform to increase user engagement and retention. With respect to our IP business, we plan to build a complete product life cycle including online reading, fan groups' support, and content adaptation to facilitate the development of blockbuster IPs.

Finally, I would like to thank our management and employees for their efforts and contributions; our Board of Directors for its insights and guidance; and our shareholders for their enthusiasm and support.

Sincerely,
**Mr. James Gordon Mitchell**
*Chairman of the Board and non-executive Director*

Hong Kong, August 27, 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

**Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017**

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| **Revenues** | **2,282,900** | 1,924,198 |
| Cost of revenues | **(1,086,401)** | (962,004) |
| **Gross profit** | **1,196,499** | 962,194 |
| Interest income | **84,901** | 12,245 |
| Other gains, net | **148,010** | 50,674 |
| Selling and marketing expenses | **(527,272)** | (467,399) |
| General and administrative expenses | **(334,773)** | (323,500) |
| **Operating profit** | **567,365** | 234,214 |
| Finance costs | **(12,105)** | (20,438) |
| Share of profit of associates and joint ventures | **50,984** | 29,915 |
| **Profit before income tax** | **606,244** | 243,691 |
| Income tax expense | **(101,931)** | (30,202) |
| **Profit for the period** | **504,313** | 213,489 |
| **Profit/(loss) attributable to:** | | |
| – Equity holders of the Company | **505,810** | 212,020 |
| – Non-controlling interests | **(1,497)** | 1,469 |
| | **504,313** | 213,489 |
| **Non-GAAP profit for the period (unaudited)** | **482,247** | 302,842 |
| **Non-GAAP profit/(loss) attributable to (unaudited):** | | |
| – Equity holders of the Company | **483,481** | 300,566 |
| – Non-controlling interests | **(1,234)** | 2,276 |
| | **482,247** | 302,842 |

# MANAGEMENT DISCUSSION AND ANALYSIS

*Revenues*. Revenues increased by 18.6% to RMB2,282.9 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. The following table sets forth our revenues by line of business for the six months ended June 30, 2018 and 2017:

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **RMB'000 (Unaudited)** | **%** | RMB'000 | % |
| Online reading | | | | |
| On our self-owned platform products | **1,068,191** | **46.8** | 871,510 | 45.3 |
| On our self-operated channels on Tencent products | **499,678** | **21.9** | 545,805 | 28.4 |
| On our third-party platforms | **283,030** | **12.4** | 216,463 | 11.2 |
| Total online reading | **1,850,899** | **81.1** | 1,633,778 | 84.9 |
| Intellectual property operations | **316,990** | **13.9** | 155,660 | 8.1 |
| Revenue from sales of physical books | **75,906** | **3.3** | 93,896 | 4.9 |
| Others | **39,105** | **1.7** | 40,864 | 2.1 |
| **Total Revenues** | **2,282,900** | **100.0** | 1,924,198 | 100.0 |

— Revenues from online reading increased by 13.3% to RMB1,850.9 million for the six months ended June 30, 2018 compared to the corresponding period in 2017.

Revenues from online reading on our self-owned platform products increased by 22.6% to RMB1,068.2 million for the six months ended June 30, 2018, primarily driven by the increase in paying users and their growing willingness to pay for premium online literature content.

Revenues from online reading on our self-operated channels on Tencent products decreased by 8.5% to RMB499.7 million for the six months ended June 30, 2018, primarily due to the decline of paying users from our existing self-operated channels on Tencent products.

Revenues from online reading on third-party platforms increased by 30.8% to RMB283.0 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. The increase was primarily due to our enhanced cooperation with existing third-party distribution channels, enabling a growth in such revenues accordingly.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarizes our key operating data for the six months ended June 30, 2018 and 2017:

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| Average MAUs on our self-owned platform products and self-operated channels (average of MAUs for each calendar month) | **213.5 million** | 191.8 million |
| Average MPUs on our self-owned platform products and self-operated channels (average of MPUs for each calendar month) | **10.7 million** | 11.5 million |
| Paying Ratio[1] | **5.0%** | 6.0% |
| Monthly average revenue per paying user ("ARPU") [2] | **RMB24.4** | RMB20.5 |

Notes:

(1) Calculated as average MPUs divided by average MAUs for a certain period.

(2) Calculated as online reading revenues on our self-owned platform products and self-operated channels for a given period, divided by average MPUs during the period, further divided by the number of months in that period.

- Average MAUs on our self-owned platform products and self-operated channels increased by 11.3% year-over-year from 191.8 million for the six months ended June 30, 2017 to 213.5 million for the six months ended June 30, 2018, among which MAUs on our self-owned platform products and self-operated channels, respectively, increased from 88.3 million and 103.5 million for the six months ended June 30, 2017 to 106.3 million and 107.2 million for the six months ended June 30, 2018. The increase in average MAUs on our self-owned platform products and self-operated channels was mainly driven by our continuous innovation in the user experience and the sustained expansion of distribution channels.

- Average MPUs on our self-owned platform products and self-operated channels decreased by 7.0% year-over-year from 11.5 million for the six months ended June 30, 2017 to 10.7 million for the six months ended June 30, 2018. The decrease was mainly due to the decline of paying users from our existing self-operated channels on Tencent products starting from the second half of 2017, partially offset by an increase in paying users from our self-owned platform products. Average MPUs maintained relatively stable compared with 10.6 million for the six months ended December 31, 2017.

- As a result of the foregoing, paying ratio decreased from 6.0% for the six months ended June 30, 2017 to 5.0% for the six months ended June 30, 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

- Monthly ARPU grew by 19.0% year-over-year from RMB20.5 for the six months ended June 30, 2017 to RMB24.4 for the six months ended June 30, 2018, primarily due to continuous increase of paying users' engagement and their growing willingness to pay for premium online literature content.

— Revenues from intellectual property operations increased significantly by 103.6% to RMB317.0 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. This increase was primarily derived from the increase in revenues from licensing copyrights for the adaptation of TV and web series, animations, games, films as well as comics mainly due to its growing commercial value of our content, as well as the rising demand from our content adaptation partners for our high quality literary titles.

— Revenues from sales of physical books decreased by 19.2% to RMB75.9 million for the six months ended June 30, 2018 compared to the corresponding period in 2017, primarily as we continued to adjust our offline physical book business line and distribution channels for the six months ended June 30, 2018, in tandem with our Company's approach regarding this line of business.

— Revenues from others decreased by 4.3% to RMB39.1 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. Our revenues from others are mainly derived from online games and online advertising services.

*Cost of revenues.* Cost of revenues increased by 12.9% to RMB1,086.4 million for the six months ended June 30, 2018 compared to the corresponding period in 2017 in tandem with revenue growth, and to a lesser extent. The increase mainly reflected greater content costs, which increased by 27.2% to RMB744.4 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. This was partially offset by a decrease in distribution costs for our online reading platform by 15.0% to RMB105.4 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. Content costs as a percentage of revenues increased from 30.4% for the six months ended June 30, 2017 to 32.6% for the six months ended June 30, 2018, mainly due to an increase in revenues from titles with revenue-sharing arrangements as a proportion of total revenues. Online reading platform distribution costs as a percentage of revenues decreased from 6.4% for the six months ended June 30, 2017 to 4.6% for the six months ended June 30, 2018, primarily due to a decrease in line with the decrease of online reading revenues from our self-operated channels on Tencent products.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth our cost of revenues by amount and as a percentage of total revenues for the six months ended June 30, 2018 and 2017:

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **RMB'000 (Unaudited)** | **%** | RMB'000 | % |
| Content costs | **744,408** | **32.6** | 585,052 | 30.4 |
| Online reading platform distribution costs | **105,432** | **4.6** | 123,999 | 6.4 |
| Amortization of intangible assets | **56,807** | **2.5** | 57,705 | 3.0 |
| Cost of inventories sold | **67,850** | **3.0** | 67,063 | 3.5 |
| Others | **111,904** | **4.9** | 128,185 | 6.7 |
| **Total cost of revenues** | **1,086,401** | **47.6** | 962,004 | 50.0 |

*Gross profit and gross margin.* As a result of the foregoing, our gross profit increased by 24.4% to RMB1,196.5 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. Our gross margin increased from 50.0% for the six months ended June 30, 2017 to 52.4% for the six months ended June 30, 2018, primarily as a result of our efficient cost control measures and increased economies of scale, in addition to the above mentioned effects contributed by the changes in content costs and online reading platform distribution costs as the proportion of total revenues.

*Interest income*. Interest income increased by 593.4% to RMB84.9 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. This increase was primarily driven by the higher interest income from bank deposits.

*Other gains*, net. We recorded net other gains of RMB148.0 million for the six months ended June 30, 2018 compared to RMB50.7 million for the six months ended June 30, 2017. Our net other gains for the six months ended June 30, 2018 primarily consisted of (i) gains on deemed disposal of a subsidiary of RMB127.9 million in connection with Shenzhen Lazy Online Technology Co., Ltd., which was completed in April 2018, (ii) government subsidies of RMB29.0 million and (iii) fair value gain on financial assets at fair value through profit or loss of RMB26.2 million. The increase was partially offset by a net foreign exchange loss of RMB36.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

*Selling and marketing expenses.* Selling and marketing expenses increased by 12.8% to RMB527.3 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. The increase mainly reflected increases in our (i) promotion and advertising expenses in tandem with our business growth and, to a lesser extent, (ii) payment handling costs, largely as a result of the increase in our online reading revenues and more payments handled by channels with higher charge rates. As a percentage of revenues, our selling and marketing expenses decreased to 23.1% for the six months ended June 30, 2018 from 24.3% for the six months ended June 30, 2017, as the growth in our revenues outpaced the growth in our selling and marketing expenses as a result of increased economies of scale.

*General and administrative expenses.* General and administrative expenses increased by 3.5% to RMB334.8 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. The increase was principally driven by greater employee benefits expenses. As a percentage of revenues, our general and administrative expenses decreased to 14.7% for the six months ended June 30, 2018 from 16.8% for the six months ended June 30, 2017, as the growth in our revenues outpaced the growth in our general and administrative expenses as a result of increased economies of scale.

*Operating profit and operating margin*. As a result of the foregoing, we had an operating profit of RMB567.4 million for the six months ended June 30, 2018 as compared to RMB234.2 million for the six months ended June 30, 2017. Our operating margin increased from 12.2% for the six months ended June 30, 2017 to 24.9% for the six months ended June 30, 2018.

*Finance costs.* Finance costs decreased by 40.8% to RMB12.1 million for the six months ended June 30, 2018 compared to the corresponding period in 2017. The decrease was mainly due to lower interest expenses incurred in connection with our reduced borrowings.

*Share of profits of associates and joint ventures.* Share of profits of associates and joint ventures increased from RMB29.9 million for the six months ended June 30, 2017 to RMB51.0 million for the six months ended June 30, 2018, primarily as a result of greater profits generated from our investee companies using the equity method during the six months ended June 30, 2018.

*Income tax expense.* Income tax expense increased from RMB30.2 million for the six months ended June 30, 2017 to RMB101.9 million for the six months ended June 30, 2018, mainly driven by our increased profit before tax.

*Profit attributable to equity holders of the Company.* Profit attributable to equity holders of the Company increased significantly from RMB212.0 million for the six months ended June 30, 2017 to RMB505.8 million for the six months ended June 30, 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER FINANCIAL INFORMATION

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | (RMB'000, unless specified) | |
| | **(Unaudited)** | (Unaudited) |
| EBITDA [1] | **415,406** | 266,045 |
| Adjusted EBITDA[2] | **491,152** | 348,436 |
| Adjusted EBITDA margin[3] | **21.5%** | 18.1% |
| Interest expense | **10,359** | 17,426 |
| Net cash[4] | **8,491,122** | 1,281,701 |
| Capital expenditures[5] | **85,768** | 68,071 |

Notes:

(1) EBITDA consists of operating profit for the period less interest income and other gains, net and plus depreciation of property, plant and equipment and amortization of intangible assets.

(2) Adjusted EBITDA is calculated by EBITDA for the period plus share-based compensation for the six months ended June 30, 2018 and 2017 and one-off listing expenses for the six months ended June 30, 2017.

(3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.

(4) Net cash is calculated as cash and cash equivalents, term deposits and restricted bank deposits, less total borrowings.

(5) Capital expenditures consist of expenditures for intangible assets and property, plant and equipment.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Operating profit | **567,365** | 234,214 |
| Add: | | |
| Interest income | **(84,901)** | (12,245) |
| Other gains, net | **(148,010)** | (50,674) |
| Depreciation of property, plant and equipment | **7,255** | 13,688 |
| Amortization of intangible assets | **73,697** | 81,062 |
| **EBITDA** | **415,406** | 266,045 |
| Add: | | |
| Share-based compensation | **75,746** | 52,600 |
| One-off listing expenses | **—** | 29,791 |
| **Adjusted EBITDA** | **491,152** | 348,436 |

## Non-GAAP Financial Measure

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-GAAP financial measures, namely operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and diluted EPS as additional financial measures, have been presented in this interim report. These unaudited non-GAAP financial measures should be considered in addition to, and not as a substitute for, measures of our Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the reconciliations of our Group's non-GAAP financial measures for the six months ended June 30, 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

| | Unaudited six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | | Adjustments | | | |
| | As reported | Share-based compensation | Net (gain) from investee companies[1] | Amortization of intangible assets[2] | Non-GAAP |
| | (RMB'000, unless specified) | | | | |
| **Operating profit** | **567,365** | **75,746** | **(153,911)** | **26,430** | **515,630** |
| **Profit for the period** | **504,313** | **75,746** | **(117,635)** | **19,823** | **482,247** |
| **Profit attributable to equity holders of the Company** | **505,810** | **75,746** | **(117,635)** | **19,560** | **483,481** |
| **EPS (RMB per share)** | | | | | |
| **– basic** | **0.58** | | | | **0.55** |
| **– diluted** | **0.57** | | | | **0.54** |
| **Operating margin** | **24.9%** | | | | **22.6%** |
| **Net margin** | **22.1%** | | | | **21.1%** |

| | Unaudited six months ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | |
| | As reported | Share-based compensation | Net (gain) from investee companies[1] | Amortization of intangible assets[2] | One-off listing expenses | Impairment provision[3] | Non-GAAP |
| | (RMB' 000, unless specified) | | | | | | |
| Operating profit | 234,214 | 52,600 | (66,299) | 32,906 | 29,791 | 51,200 | 334,412 |
| Profit for the period | 213,489 | 52,600 | (56,118) | 24,680 | 29,791 | 38,400 | 302,842 |
| Profit attributable to equity holders of the Company | 212,020 | 52,600 | (56,118) | 23,873 | 29,791 | 38,400 | 300,566 |
| EPS (RMB per share) | | | | | | | |
| – basic | 0.29 | | | | | | 0.41 |
| – diluted | 0.29 | | | | | | 0.41 |
| Operating margin | 12.2% | | | | | | 17.4% |
| Net margin | 11.1% | | | | | | 15.7% |

Notes:

(1) The Group applied the new rules of IFRS 9 "Financial Instruments" retrospectively from 1 January 2018, and reclassified its investments in redeemable shares of associates to financial assets at fair value through profit or loss. During the six months ended June 30, 2018, this item includes fair value gain on financial assets at fair value through profit or loss and gain on deemed disposal of a subsidiary. During the six months ended June 30, 2017, this item 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 impairment provision for intangible assets.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Structure

Our Company continued to maintain a healthy and sound financial position. Our total assets grew from RMB15,137.4 million as of December 31, 2017 to RMB15,617.1 million as of June 30, 2018, while our total liabilities changed from RMB2,474.7 million as of December 31, 2017 to RMB2,337.8 million as of June 30, 2018. Our liabilities-to-asset ratio changed from 16.3% as of December 31, 2017 to 15.0% as of June 30, 2018.

As of June 30, 2018, our current ratio (being the ratio of total current assets to total current liabilities) was 491.7%, compared to 534.8% as of December 31, 2017.

As of June 30, 2018, our Group has not pledged any assets as security.

## Liquidity and Financial Resources

Our Group funds cash requirements principally from capital contributions from shareholders, cash generated from our operations. As of June 30, 2018, our Group had net cash of RMB8,491.1 million. The sequential increase in net cash in the six months ended June 30, 2018 was mainly due to net cash generated from our business growth. Our bank balances and term deposits are primarily in USD and RMB. Our Group monitors capital on the basis of the gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2018, our Group's gearing ratio was 3.6%, compared to 3.8% as of December 31, 2017.

As of June 30, 2018, our total borrowings were RMB475.0 million, which were primarily denominated in RMB and related to a borrowing balance of RMB475.0 million borrowed from the Bank of Communications, Shanghai Branch, with a floating interest rate of the Bank of Communications' loan prime rate minus 0.025% per annum due in March 2019. The borrowing was under the loan facility agreement of up to RMB500.0 million, which Shanghai Yuewen, one of our Group's subsidiaries, and Bank of Communications, Shanghai Branch, entered into, with a guarantee from the Bank of Communications, Tokyo Branch. As of June 30, 2018, our Group's unutilized banking facility under the aforementioned loan facility agreement and the other loan facility agreement was RMB26.8 million.

As of June 30, 2018, our Group did not have any significant contingent liabilities.

As of June 30, 2018, our Group had not used any financial instruments for hedging purposes.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Expenditures and Long-Term Investments

Our Group's capital expenditures and long-term investments for the six months ended June 30, 2018 amounted to RMB123.0 million, compared to RMB171.5 million for the six months ended June 30, 2017. Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our long-term investments were made in accordance with our general strategy of investment or acquiring businesses that are complementary to our business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the IPO Proceeds.

## Foreign Exchange Risk Management

Our Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the six months ended June 30, 2018 and 2017.

## Employee and Remuneration Policies

As of June 30, 2018, we had approximately 1,500 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 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 housing funds and various employee social security plans that are organized by applicable local municipal and provincial governments. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and based in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

# OTHER INFORMATION

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 of the Listing Rules as its own code of corporate governance.

For the six months ended June 30, 2018, the Company has complied with all applicable code provisions of the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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 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, 2018.

## INTERIM DIVIDEND

The Board did not propose any interim dividend for the six months ended June 30, 2018.

## SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On August 13, 2018, the Company has entered into a share purchase agreement, pursuant to which the Company has conditionally agreed to acquire the entire equity interest of Qiandao Lake Holdings Limited. Please refer to the announcement of the Company dated August 13, 2018 for further details about the acquisition.

## AUDIT COMMITTEE

The Board has established the Audit Committee which comprises two independent non-executive Directors and a non-executive Director, namely Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Yang Xiang Dong. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process and internal controls.

The Audit Committee, together with management and the Auditor, has reviewed the unaudited interim results of the Group for the six months ended June 30, 2018. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems of the Company and considers the risk management and internal control systems to be effective and adequate.

# OTHER INFORMATION

## CHANGES TO DIRECTORS' INFORMATION

The Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2018.

## USE OF NET PROCEEDS FROM LISTING

Our shares were listed on the Stock Exchange on November 8, 2017 by way of global offering and the net proceeds raised during our IPO were approximately RMB6,145 million (HKD7,235 million). As at June 30, 2018, the Group had:

- used approximately RMB119.9 million for expanding the Group's online reading business and sales and marketing activities; and
- used approximately RMB40.9 million for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles.

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

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2018, the interests or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code are as follows:

### Interests of Directors and Chief Executives of the Company

| Name | Capacity/ Nature of Interest | Number of Shares | Long/Short Position | Approximate Percentage of Shareholding in the Company[1] (%) |
|---|---|---|---|---|
| Mr. Wu Wenhui[2] | Interest in controlled corporation | 27,100,626 | Long position | 2.99 |
| Mr. Liang Xiaodong[3] | Beneficiary of a trust | 1,600,000 | Long position | 0.18 |
| | Interest in controlled corporation | 2,400,000 | Long position | 0.26 |
| Mr. James Gordon Mitchell | Beneficial owner | 1,352 | Long position | 0.00 |
| Ms. Li Ming | Beneficial owner | 8 | Long position | 0.00 |

# OTHER INFORMATION

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

| Name | Name of Associated Corporations | Capacity/ Nature of Interest | Number of Shares | Approximate Percentage of Shareholding in Associated Corporations (%) |
|---|---|---|---|---|
| Mr. James Gordon Mitchell(4) | Tencent Holdings Limited | Beneficial owner | 5,626,960 | 0.06 |
| Mr. Lin Haifeng(5) | Tencent Holdings Limited | Beneficial owner | 212,055 | 0.00 |
| Ms. Li Ming(6) | Tencent Holdings Limited | Beneficial owner | 33,401 | 0.00 |
| | | Interest of spouse | 9,100 | 0.00 |
| Mr. Wu Wenhui(7) | Shanghai Hongwen | Interest of controlled corporation | 3,462,000 | 34.62 |
| Mr. Wu Wenhui(7) | Shanghai Yuewen | Interest of controlled corporation | 3,462,000 | 34.62 |

Notes:

(1) The calculation is based on the total number of 906,417,239 Shares in issue as of June 30, 2018.

(2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui is deemed to be interested in the 27,100,626 Shares held by Grand Profits Worldwide Limited.

(3) Mr. Liang Xiaodong is entitled to RSUs equivalent to 1,600,000 Shares (subject to vesting conditions), which are held under a trust. He is also deemed to be interested in the 2,400,000 shares held by Equal Talent Group Limited in which he holds the entire share capital.

(4) These interests comprise (i) 1,660,700 shares of Tencent, (ii) 267,600 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 3,698,660 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent.

(5) These interests are share underlying Tencent in respect of the awarded share granted to Mr. Lin Haifeng under share award schemes of Tencent.

(6) These interests comprise (i) 15,876 shares of Tencent, (ii) 12,205 shares underlying Tencent in respect of the awarded shares granted to Ms. Li Ming under share award schemes of Tencent, and (iii) 5,320 shares underlying Tencent in respect of the options granted to Ms. Li Ming under share award schemes of Tencent.

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

Save as disclosed above, as of June 30, 2018, none of the Directors and chief executives of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

# OTHER INFORMATION

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

As of June 30, 2018, the following persons (other than the Directors or chief executives of the Company), had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests 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 | 522,305,634 | Long position | 57.62 |
| THL A13 Limited[2], [3] | Beneficial owner | 246,600,000 | Long position | 27.21 |
| | Interest in controlled corporations | 45,000,000 | Long position | 4.96 |
| Qinghai Lake Investment Limited[2] | Beneficial owner | 222,305,634 | Long position | 24.53 |
| CAP IV, L.L.C. [4] | Interest in controlled corporations | 68,141,592 | Long position | 7.52 |
| Carlyle Holdings II GP L.L.C. [4] | Interest in controlled corporations | 68,141,592 | Long position | 7.52 |
| The Carlyle Group L.P. [4] | Interest in controlled corporations | 68,141,592 | Long position | 7.52 |
| Luxun Investment Limited[4] | Beneficial owner | 49,713,624 | Long position | 5.48 |
| Li Shujun[5] | Interest in controlled corporations | 78,731,958 | Long position | 8.69 |
| TB Partners GP5 Limited[5] | Interest in controlled corporations | 78,731,958 | Long position | 8.69 |
| TB Partners GP5, L.P. [5] | Interest in controlled corporations | 78,731,958 | Long position | 8.69 |
| Trustbridge Partners V, L.P. [5] | Beneficial owner | 33,731,958 | Long position | 3.72 |
| | Interest in controlled corporations | 45,000,000 | Long position | 4.96 |

# OTHER INFORMATION

Notes:

(1) The calculation is based on the total number of 906,417,239 Shares in issue as of June 30, 2018.

(2) THL A13 and Qinghai Lake are wholly-owned subsidiaries of Tencent. Under the SFO, Tencent is deemed to be interested in (i) the 468,905,634 Shares directly held by THL A13 and Qinghai Lake in aggregate, (ii) the 45,000,000 Shares held by Deal Plus Global Limited, a British Virgin Islands organised company owned as to 48.9% by THL A13 which in turn is a wholly-owned subsidiary of Tencent, and (iii) the 8,400,000 Shares held by Tencent Growthfund, which is another wholly-owned subsidiary of Tencent.

(3) Under the SFO, THL A13 is deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited, a British Virgin Islands organised company owned as to 48.9% by THL A13.

(4) Each of Laoshe Investment Limited (holding 18,427,968 Shares) and Luxun Investment Limited (holding 49,713,624 Shares) is owned by Carlyle Asia Partners IV, L.P. as to 93.66%. CAP IV General Partner, L.P. is the general partner of Carlyle Asia Partners IV, L.P., while CAP IV, L.L.C. is the general partner of CAP IV General Partner, L.P.. Carlyle Asia Partners IV, L.P. and CAP IV General Partner, L.P. are limited partnerships established in the Cayman Islands. CAP IV, L.L.C. is a limited liability corporation established in the State of Delaware, the United States. CAP IV, L.L.C. is wholly-owned by TC Group Cayman Investment Holdings Sub, L.P.. TC Group Cayman Investment Holdings, L.P. is the general partner of TC Group Cayman Investment Holdings Sub, L.P.. Carlyle Holdings II L.P. is the general partner of TC Group Cayman Investment Holdings, L.P.. Carlyle Holdings II GP L.L.C. is in turn the general partner of Carlyle Holdings II L.P.. Carlyle Holdings II GP L.L.C. acts in accordance with the instructions of its managing member, The Carlyle Group L.P., which is a publicly traded entity listed on the NASDAQ Stock Exchange. Under the SFO, Carlyle Asia Partners IV, L.P., CAP IV General Partner, L.P., CAP IV, L.L.C., TC Group Cayman Investment Holdings Sub, L.P., TC Group Cayman Investment Holdings, L.P., Carlyle Holdings II L.P., Carlyle Holdings II GP L.L.C. and The Carlyle Group L.P. are deemed to be interested in the 68,141,592 Shares held by Laoshe Investment Limited and Luxun Investment Limited.

(5) Deal Plus Global Limited is owned by Trustbridge Partners V, L.P., which is a U.S.-dollar denominated Cayman Islands limited partnership fund managed by Trustbridge Partners and its affiliates, as to 36.11%. Trustbridge Partners V, L.P. is wholly-owned by TB Partners GP5, L.P., which in turn is wholly-owned by TB Partners GP5 Limited. TB Partners GP5 Limited is wholly-owned by Li Shujun. Under the SFO, Trustbridge Partners V, L.P., TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited and TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 33,731,958 Shares held by Trustbridge Partners V, L.P..

Save as disclosed above, as of June 30, 2018, the Directors and the chief executives of the Company are not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## RESTRICTED STOCK UNIT PLAN

The Company adopted its RSU Plan as approved by the Board resolution passed on December 23, 2014 and amended by the Board resolution passed on March 12, 2016. The RSU Plan commenced on December 23, 2014 and shall continue in effect for a term of ten (10) years unless sooner terminated. Certain principal terms and details of the RSU Plan are summarized as follows:

### Purpose

The purpose of the RSU Plan is to promote the success and enhance the value of our Company, by linking the personal interests of our employees, directors or consultants, by providing such individual employees, directors or consultants with an incentive for outstanding performance, to generate superior returns to the Shareholders. The RSU Plan is further intended to provide flexibility in our ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of our operation is largely dependent.

# OTHER INFORMATION

## Eligible Participants

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

## Maximum Number 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.

# OTHER INFORMATION

Subject to relevant provisions in the applicable Award Agreement and at the discretion of the Administrator, cash dividends and stock dividends with respect to the RSUs may be set aside our Company for the grantee's account. The cash dividends or stock dividends so set aside by the Administrator and attributable to any particular RSU shall be distributed to the grantee upon the release of settlement of such RSU and, if such Award is forfeited, the grantee shall have no right to such cash dividends or stock dividends.

## Restricted Period

The Restricted Period of RSUs shall commence on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement.

## Details of the RSUs Granted under the RSU Plan

The RSUs granted in respect of 18,552,500 underlying Shares (excluding the RSUs forfeited) on December 23, 2014 have a vesting period of five years, one-fifth of which will each vest on December 23, 2015, 2016, 2017, 2018 and 2019. The RSUs granted in respect of 5,782,500 underlying Shares (excluding the RSUs forfeited) on January 17, 2017 have a vesting period of five years, one-fifth of which will each vest on January 17, 2018, 2019, 2020, 2021 and 2022. The RSUs granted in respect of 7,100,000 underlying Shares (excluding the RSUs forfeited) on September 4, 2017 have a vesting period of five years, one-fifth of which will each vest on September 4, 2018, 2019, 2020, 2021 and 2022.

Details of the RSUs granted and vested pursuant to the RSU Plan to our Director are set out below:

| Name of Director | Date of Grant | Number of Shares underlying the RSUs Granted | Number of Shares underlying the RSUs Vested during the six months ended June 30, 2018 | Vesting Period |
|---|---|---|---|---|
| Liang Xiaodong | December 23, 2014 | 4,000,000 Shares | — | December 23, 2015 to December 23, 2019 |

# OTHER INFORMATION

Movements in the number of RSUs outstanding are as follows:

| | Number of RSUs |
|---|---|
| As of January 1, 2018 | 20,303,500 |
| Granted | — |
| Forfeited | (394,000) |
| Vested | (1,156,500) |
| Outstanding balance as of June 30, 2018 | 18,753,000 |

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" in this interim report, at no time during the Reporting Period and up to the date of this interim report was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## EMPLOYEES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in the section headed "Restricted Stock Unit Plan" in this interim report, at no time during the Reporting Period and up to the date of this interim report was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the employees to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the employees or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of China Literature Limited**
(incorporated in Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 74, which comprises the consolidated statement of financial position of China Literature Limited (the "Company") and its subsidiaries (together, the "Group") as at June 30, 2018 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

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

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, August 13, 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2018

| | Note | Six months ended June 30, 2018 RMB'000 (Unaudited) | 2017 RMB'000 |
|---|---|---|---|
| **Revenues** | 8 | **2,282,900** | 1,924,198 |
| Cost of revenues | 9 | **(1,086,401)** | (962,004) |
| **Gross profit** | | **1,196,499** | 962,194 |
| Interest income | 10 | **84,901** | 12,245 |
| Other gains, net | 11 | **148,010** | 50,674 |
| Selling and marketing expenses | 9 | **(527,272)** | (467,399) |
| General and administrative expenses | 9 | **(334,773)** | (323,500) |
| **Operating profit** | | **567,365** | 234,214 |
| Finance costs | 12 | **(12,105)** | (20,438) |
| Share of profit of associates and joint ventures | 18 | **50,984** | 29,915 |
| **Profit before income tax** | | **606,244** | 243,691 |
| Income tax expense | 13 | **(101,931)** | (30,202) |
| **Profit for the period** | | **504,313** | 213,489 |
| **Other comprehensive income/(loss):** | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Currency translation differences | | **90,122** | (21,835) |
| **Total comprehensive income for the period** | | **594,435** | 191,654 |
| **Profit/(loss) attributable to:** | | | |
| – Equity holders of the Company | | **505,810** | 212,020 |
| – Non-controlling interests | | **(1,497)** | 1,469 |
| | | **504,313** | 213,489 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| – Equity holders of the Company | | **595,939** | 190,185 |
| – Non-controlling interests | | **(1,504)** | 1,469 |
| | | **594,435** | 191,654 |
| **Earnings per share (expressed in RMB per share)** | | | |
| – Basic earnings per share | 14(a) | **0.58** | 0.29 |
| – Diluted earnings per share | 14(b) | **0.57** | 0.29 |

The accompanying notes on pages 34 to 74 form an integral part of this interim financial information.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

| | Note | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **34,592** | 36,050 |
| Intangible assets | 17 | **4,467,482** | 4,501,097 |
| Investments in associates and joint ventures | 18 | **556,298** | 342,314 |
| Investments in redeemable shares of associates | 4.1 | **—** | 267,000 |
| Derivative financial assets | 4.1 | **—** | 37,594 |
| Deferred income tax assets | 20 | **15,500** | 20,326 |
| Financial assets at fair value through profit or loss | 4.1, 19 | **293,000** | — |
| Prepayments, deposits and other assets | 22 | **22,593** | 22,868 |
| Term deposits | | **—** | 450,860 |
| Other investments | | **—** | 25,128 |
| | | **5,389,465** | 5,703,237 |
| **Current assets** | | | |
| Inventories | 23 | **338,950** | 222,486 |
| Trade and notes receivables | 24 | **606,336** | 759,983 |
| Prepayments, deposits and other assets | 22 | **252,195** | 295,812 |
| Other investments at amortised cost | | **26,209** | — |
| Term deposits | | **456,545** | 653,420 |
| Cash and cash equivalents | | **8,509,577** | 7,502,430 |
| Financial assets at fair value through profit or loss | 4.1, 19 | **37,823** | — |
| | | **10,227,635** | 9,434,131 |
| **Total assets** | | **15,617,100** | 15,137,368 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity holders of the Company** | | | |
| Share capital | 21 | **569** | 569 |
| Shares held for RSU scheme | 21 | **(19)** | (23) |
| Share premium | 21 | **12,143,460** | 12,143,464 |
| Other reserves | 25 | **451,451** | 309,232 |
| Retained earnings | | **673,764** | 167,954 |
| | | **13,269,225** | 12,621,196 |
| **Non-controlling interests** | | **10,078** | 41,514 |
| **Total equity** | | **13,279,303** | 12,662,710 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

| | Note | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 27 | **—** | 475,000 |
| Deferred income tax liabilities | 20 | **217,278** | 193,907 |
| Deferred revenue | | **40,431** | 41,585 |
| | | **257,709** | 710,492 |
| **Current liabilities** | | | |
| Borrowings | 27 | **475,000** | — |
| Trade payables | 28 | **863,217** | 656,953 |
| Other payables and accruals | 29 | **352,889** | 719,646 |
| Deferred revenue | | **342,239** | 352,876 |
| Current income tax liabilities | | **46,243** | 34,691 |
| Financial liabilities at fair value through profit or loss | 4.1 | **500** | — |
| | | **2,080,088** | 1,764,166 |
| **Total liabilities** | | **2,337,797** | 2,474,658 |
| **Total equity and liabilities** | | **15,617,100** | 15,137,368 |

The accompanying notes on pages 34 to 74 form an integral part of this interim financial information.

On behalf of the Board

**Wu Wenhui**
Director

**Liang Xiaodong**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Shares held for RSU scheme RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| **(Unaudited)** | | | | | | | | |
| **As at January 1, 2018** | 569 | 12,143,464 | (23) | 309,232 | 167,954 | 12,621,196 | 41,514 | 12,662,710 |
| **Comprehensive income/(loss)** | | | | | | | | |
| Profit/(loss) for the period | — | — | — | — | 505,810 | 505,810 | (1,497) | 504,313 |
| Other comprehensive income/(loss) | | | | | | | | |
| – Currency translation differences | — | — | — | 90,129 | — | 90,129 | (7) | 90,122 |
| **Total comprehensive income/(loss) for the period** | — | — | — | 90,129 | 505,810 | 595,939 | (1,504) | 594,435 |
| **Transaction with owners** | | | | | | | | |
| Share-based compensation expenses | — | — | — | 75,746 | — | 75,746 | — | 75,746 |
| Transfer of vested RSUs | — | (4) | 4 | — | — | — | — | — |
| Acquisition of non-controlling interests | — | — | — | (23,656) | — | (23,656) | 3,781 | (19,875) |
| Deconsolidation of a non-wholly owned subsidiary (Note 11) | — | — | — | — | — | — | (33,713) | (33,713) |
| **Transactions with owners in their capacity for the period** | — | (4) | 4 | 52,090 | — | 52,090 | (29,932) | 22,158 |
| **As at June 30, 2018** | 569 | 12,143,460 | (19) | 451,451 | 673,764 | 13,269,225 | 10,078 | 13,279,303 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2017

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| **As at January 1, 2017** | 431 | 5,311,029 | 210,878 | (356,113) | 5,166,225 | 42,057 | 5,208,282 |
| **Comprehensive income/(loss)** | | | | | | | |
| Profit for the period | — | — | — | 212,020 | 212,020 | 1,469 | 213,489 |
| Other comprehensive loss | | | | | | | |
| – Currency translation differences | — | — | (21,835) | — | (21,835) | — | (21,835) |
| **Total comprehensive income/(loss) for the period** | — | — | (21,835) | 212,020 | 190,185 | 1,469 | 191,654 |
| **Transaction with owners** | | | | | | | |
| Share-based compensation expenses | — | — | 52,600 | — | 52,600 | — | 52,600 |
| Issuance of ordinary shares | 21 | 687,744 | — | — | 687,765 | — | 687,765 |
| Disposal of equity interests in non-wholly owned subsidiaries | — | — | — | — | — | (7,152) | (7,152) |
| Non-controlling interests arising from business combination | — | — | — | — | — | 46 | 46 |
| Others | — | — | 2,295 | — | 2,295 | — | 2,295 |
| **Transactions with owners in their capacity for the period** | 21 | 687,744 | 54,895 | — | 742,660 | (7,106) | 735,554 |
| **As at June 30, 2017** | 452 | 5,998,773 | 243,938 | (144,093) | 6,099,070 | 36,420 | 6,135,490 |

The accompanying notes on pages 34 to 74 form an integral part of this interim financial information.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2018

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| **Cash flows from operating activities** | | |
| Cash generated from operations | **531,325** | 357,185 |
| Income tax paid | **(60,794)** | (31,922) |
| Net cash generated from operating activities | **470,531** | 325,263 |
| **Cash flows from investing activities** | | |
| Payments for business combinations, net of cash acquired | **—** | (7,693) |
| Placement of term deposits with initial term of over three months | **—** | (475,334) |
| Receipt from maturity of term deposit with initial term of over three months | **639,620** | — |
| Payment for short-term investments | **—** | (2,709,300) |
| Proceeds from disposals of short-term investments | **—** | 2,996,341 |
| Acquisition of investments in associates and a joint venture | **(37,200)** | (103,400) |
| Purchase of property, plant and equipment | **(5,434)** | (10,031) |
| Purchase of intangible assets | **(80,334)** | (58,040) |
| Proceeds from disposals of property, plant and equipment | **—** | 20 |
| Net cash (outflow)/inflow arising from deemed disposal and disposal of subsidiaries | **(101,094)** | 17,429 |
| Interest received | **77,688** | 26,288 |
| Receipt from maturity of deposits placed with a related party | **—** | 300,000 |
| Dividends received | **—** | 781 |
| Net cash generated from/(used in) investing activities | **493,246** | (22,939) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | **—** | 475,000 |
| Repayments of borrowings | **—** | (300,000) |
| Finance costs paid | **(10,415)** | (33,936) |
| Proceeds from issuance of ordinary shares | **—** | 687,765 |
| Payment for guarantee fee | **(3,073)** | (3,128) |
| Payment for acquisition of non-controlling interests | **(5,000)** | — |
| Net cash (used in)/generated from financing activities | **(18,488)** | 825,701 |
| **Net increase in cash and cash equivalents** | **945,289** | 1,128,025 |
| Cash and cash equivalents at beginning of the period | **7,502,430** | 404,915 |
| Exchange gains/(losses) on cash and cash equivalents | **61,858** | (3,027) |
| **Cash and cash equivalents at end of the period** | **8,509,577** | 1,529,913 |

The accompanying notes on pages 34 to 74 form an integral part of this interim financial information.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1 GENERAL INFORMATION

China Literature Limited (formerly known as China Reading Limited) 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 PRC.

The ultimate holding company of the Company is 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 at June 30, 2018, the related consolidated statement of comprehensive income for the six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Interim Financial Information is presented in 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, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the 2017 annual report of the Company dated March 19, 2018 (the "2017 Financial Statements").

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below in Note 3.1 and 4, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2017 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and derivative financial assets, which are carried at fair values.

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 New and amended standards adopted by the Group

A number of new or amended standards effective for the financial year ending December 31, 2018 do not have a material impact on the Group's Interim Financial Information.

#### IFRS 9 "Financial Instruments"

The Group has reviewed its financial assets and liabilities and adopted the IFRS 9 on January 1, 2018:

**(a) Classification**

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

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

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

**(b) Measurement**

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

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 New and amended standards adopted by the Group (Continued)

**IFRS 9 "Financial Instruments"** (Continued)

**(b) Measurement (Continued)**

***Debt instruments***

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

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as and measured at amortised cost. A gain or loss on a debt investment measured at amortised cost which is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is recognised using the effective interest rate method.

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

- Fair value through profit or loss ("FVPL"): Financial assets that do not meet the criteria for amortised cost or FVOCI are classified as and measured at fair value through profit or loss. A gain or loss on a debt investment measured at fair value through profit or loss which is not part of a hedging relationship is recognised in profit or loss and presented in "Other gains, net" for the period in which it arises.

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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 New and amended standards adopted by the Group (Continued)

**IFRS 9 "Financial Instruments"** (Continued)

#### (b) Measurement (Continued)

***Equity instruments***

The Group initially recognises and subsequently measures all equity investments at fair value. Upon initial recognition, the Group's management can elect to classify irrevocably its equity investments as financial assets at FVOCI when they meet the definition of equity instruments under IFRS 9 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Where the Group has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as "Other gains, net" when the Group's right to receive payments is established. Equity instruments designated as FVOCI are not subject to impairment assessment.

FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss and financial assets mandatorily required to be measured at fair value through profit or loss. Changes in the fair value of FVPL are recognised in "Other gains, net" in the consolidated statement of comprehensive income as applicable.

#### (c) Impairment

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

For trade and notes receivables, deposits and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised since initial recognition.

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

The further details on effects of the adoption of IFRS 9 is set out in Note 4.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.1 New and amended standards adopted by the Group (Continued)

**IFRS 15 "Revenue from contracts with customers"**

The Group has also adopted IFRS 15 "Revenue from contracts with customers" on January 1, 2018. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach: (i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. IFRS 15 also provides specific guidance on contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers. In accordance with the transitional provision in IFRS 15, since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated. The Group applied the full retrospective approach for adoption of IFRS 15 upon the adoption since January 1, 2018.

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

A number of new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except IFRS 16 "Lease" as set out below:

IFRS 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. The Group is still in the process of assessing the impact of this new standard on the Group's results and financial position.

The new standard is mandatory for financial years commencing on or after January 1, 2019.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 4 CHANGES IN ACCOUNTING POLICY

As explained in Note 3.1 above, the Group has adopted IFRS 9 since January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under IFRS 9, comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

### 4.1 Classification and measurement of financial instruments

Management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (January 1, 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

**Assets**

| At January 1, 2018 | RCPS RMB'000 | DFA RMB'000 | FVPL RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Opening balance – IAS 39** | **267,000** | **37,594** | **—** | **304,594** |
| Reclassification of investments in redeemable shares of associates ("RCPS") to FVPL | **(267,000)** | **—** | **267,000** | **—** |
| Reclassification of derivative financial assets ("DFA") to FVPL | **—** | **(37,594)** | **37,594** | **—** |
| **Opening balance – IFRS 9** | **—** | **—** | **304,594** | **304,594** |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 4 CHANGES IN ACCOUNTING POLICY (CONTINUED)

### 4.1 Classification and measurement of financial instruments (Continued)

**Liabilities**

| At January 1, 2018 | Other payables and accruals RMB'000 | FLFVPL RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Opening balance – IAS 39** | **500** | **—** | **500** |
| Reclassification of consideration payables related to the acquisition of Cloudary Corporation's non-controlling interests to financial liabilities at fair value through profit or loss ("FLFVPL") | **(500)** | **500** | **—** |
| **Opening balance – IFRS 9** | **—** | **500** | **500** |

There are no effects resulting from this reclassification on the Group's equity.

Debt investments in RCPS of approximately RMB267,000,000 were reclassified from RCPS to FVPL as at January 1, 2018, because their cash flows do not represent solely payment of principal and interest. In prior years, fair value gains related to these investments amounting to approximately RMB156,758,000 were recognised in profit or loss.

Derivative financial assets of approximately RMB37,594,000 were reclassified to FVPL as at January 1, 2018, because their cash flows do not represent solely payment of principal and interest. In prior years, the gains related to the derivative financial assets amounting to approximately RMB37,594,000 were recognised in profit or loss.

Consideration payables related to the acquisition of Cloudary Corporation's non-controlling interests in the amount of RMB500,000 were reclassified from other payables and accruals to FLFVPL as at January 1, 2018. In prior years, there were no gains or losses recognized in profit or loss.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 4 CHANGES IN ACCOUNTING POLICY (CONTINUED)

### 4.2 Impairment of financial assets

The Group has the following types of financial assets subject to IFRS 9 new expected credit loss model:

- Trade and notes receivables
- Deposits and other receivables

For trade and notes receivables, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for trade and notes receivables are insignificant.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for deposits and other receivables are insignificant.

## 5 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 2017 Financial Statements.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 6.1 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 2017 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2018.

### 6.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### 6.2 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 year RMB'000** | **Between 2 and 5 year RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **(Unaudited)** | | | | |
| **As at June 30, 2018** | | | | |
| Trade payables | **863,217** | **—** | **—** | **863,217** |
| Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable, ITT refunds payable and other tax payable) | **240,708** | **—** | **—** | **240,708** |
| Borrowings | **475,000** | **—** | **—** | **475,000** |
| Total | **1,578,925** | **—** | **—** | **1,578,925** |

| | Less than 1 year RMB'000 | Between 1 and 2 year RMB'000 | Between 2 and 5 year RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| As at December 31, 2017 | | | | |
| Trade payables | 656,953 | — | — | 656,953 |
| Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable) | 349,848 | 4,896 | — | 354,744 |
| Borrowings | — | 475,000 | — | 475,000 |
| Total | 1,006,801 | 479,896 | — | 1,486,697 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### 6.3 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 at June 30, 2018.

| | **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 | **—** | **37,823** | **293,000** | **330,823** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | **—** | **—** | **500** | **500** |

The following table presents the Group's financial assets and liabilities that are measured at fair values as at December 31, 2017.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative financial assets | — | 37,594 | — | 37,594 |
| Investment in redeemable shares of an associate | — | — | 267,000 | 267,000 |
| **Liabilities** | | | | |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests | — | — | 500 | 500 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### 6.3 Fair values estimation (Continued)

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2018.

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 maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

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

There were no changes in valuation techniques during the periods.

The Group determines the fair value of the Group's financial instrument carried at fair value in level 2 and level 3 at June 30, 2018 and December 31, 2017.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

### 6.3 Fair values estimation (Continued)

The following table presents the changes in level 3 financial instruments for the six months ended June 30, 2018.

| | Financial assets RMB'000 | Financial liabilities RMB'000 |
|---|---|---|
| **(Unaudited)** | | |
| **Six months ended June 30, 2018** | | |
| Opening balance - IAS 39 | — | — |
| Adjustment on adoption of IFRS 9 (Note 4.1) | 267,000 | 500 |
| Opening balance - IFRS 9 | 267,000 | 500 |
| Changes in fair value | 26,000 | — |
| Closing balance | 293,000 | 500 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 7 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officers and the vice presidents of the Group.

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM.

As a result of this evaluation, the chief executive officers and the vice presidents of the Group consider that the Group's operations are operated and managed as a single segment; accordingly no segment information is presented.

## 8 REVENUES

| | **Six months ended June 30,** | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Online reading | | |
| – on the Group's self-owned platform products | **1,068,191** | 871,510 |
| – on the Group's self-operated channels on Tencent products | **499,678** | 545,805 |
| – on the Group's third-party platforms | **283,030** | 216,463 |
| Intellectual property operations | **316,990** | 155,660 |
| Revenue from sales of physical books | **75,906** | 93,896 |
| Others | **39,105** | 40,864 |
| | **2,282,900** | 1,924,198 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 9 EXPENSES BY NATURE

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Content costs | **744,408** | 585,052 |
| Promotion and advertising expenses | **320,915** | 296,877 |
| Employee benefits expenses | **305,403** | 261,043 |
| Payment handling costs | **134,739** | 100,356 |
| Online reading platform distribution costs | **105,432** | 123,999 |
| Amortisation of intangible assets (Note 17) | **73,697** | 81,062 |
| Professional service fees | **46,066** | 43,005 |
| Cost of inventories sold | **40,732** | 46,054 |
| Bandwidth and server custody fees | **29,248** | 28,634 |
| Operating lease rentals | **28,446** | 22,958 |
| Provision for inventory obsolescence | **27,118** | 21,009 |
| Animation production costs | **23,347** | 25,168 |
| Travelling, entertainment and general office expenses | **16,789** | 12,854 |
| Depreciation of property, plant and equipment (Note 16) | **7,255** | 13,688 |
| Auditors' remuneration | | |
| – Audit services | **6,034** | 4,358 |
| – Non-audit services | **209** | — |
| Logistic expenses | **4,633** | 4,531 |
| Game development outsourcing costs | **2,700** | 13,417 |
| Online game platform distribution costs | **1,957** | 7,821 |
| Provision for doubtful receivables | **826** | 19,742 |
| Others | **28,492** | 41,275 |
| | **1,948,446** | 1,752,903 |

Note:

(a) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2018 was approximately RMB157,191,000 (six months ended June 30, 2017: RMB129,957,000), which mainly included employee benefits expenses of research and development function staff.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 10 INTEREST INCOME

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Interest income on bank deposits | **84,901** | 12,245 |

## 11 OTHER GAINS, NET

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Gain on disposals of subsidiaries (Note (a)) | **127,911** | 60,888 |
| Government subsidies | **28,986** | 3,346 |
| Fair value gain on financial assets at fair value through profit or loss | **26,229** | 4,588 |
| Gain on copyright infringements | **1,700** | 9,294 |
| Foreign exchange (loss)/gain, net | **(36,501)** | 7,592 |
| Interest income on investments and loans receivable | **—** | 7,500 |
| Fair value gain of investment in redeemable shares of associates | **—** | 5,492 |
| Impairment loss of intangible assets | **—** | (51,200) |
| Others | **(315)** | 3,174 |
| | **148,010** | 50,674 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 11 OTHER GAINS, NET (CONTINUED)

Note:

(a) In September 2017, a share transfer and capital injection agreement was entered into by the Group's subsidiary Shenzhen Lazy Online Technology Co., Ltd. ("Lazy Online"), Lazy Online's non-controlling shareholders, and two new third party investors. According to the share transfer and capital injection agreement, a non-controlling shareholder of Lazy Online will transfer 2% equity interest in Lazy Online to the two new investors, and concurrently, the new investors will also inject RMB50,050,000 additional capital to Lazy Online. As at December 31, 2017, this transaction has not been consummated and the RMB50,050,000 received was recorded as receipt in advance in the Group's consolidated statement of financial position. In January 2018, an amended share transfer and capital injection agreement was entered into by Lazy Online, Lazy Online's non-controlling shareholders, the two aforementioned third party investors, and a new third party investor. According to the amended share transfer and capital injection agreement, a non-controlling shareholder of Lazy Online sold 2% equity interest in Lazy Online to two of the three new investors, and concurrently, the three new investors also injected RMB150,085,000 additional capital to Lazy Online and the transaction was consummated in April 2018.

Upon the deconsolidation of Lazy Online, the carrying amount of the original 51% net assets value of Lazy Online owned by the Group was amounting to approximately RMB35,089,000, while the fair value of the remaining 41% equity interests of Lazy Online owned by the Group immediately after the share transfer and capital injection was amounting to RMB163,000,000 and was recognised as "Investment in associates and joint ventures" in the consolidated statement of financial position. Accordingly, a deconsolidation gain of approximately RMB127,911,000 was recognized for the six months ended June 30, 2018. In addition, upon the deconsolidation, the carrying amount of Lazy Online's non-controlling interests was amounting to approximately RMB33,713,000 and was derecognized from the Group's consolidated statement of financial position.

The following table summarises the gain from the deconsolidation of Lazy Online, and the carrying value of assets and liabilities of Lazy Online at the deconsolidation date.

| | **As at April 30, 2018 RMB'000 (Unaudited)** |
|---|---|
| Fair value of the equity interest of Lazy Online retained by the Group | **163,000** |
| Recognised amounts of identifiable assets/liabilities: | |
| Current assets | **111,853** |
| Non-current assets | **43,748** |
| Current liabilities | **(80,467)** |
| Non-current liabilities | **(6,332)** |
| Total net assets of Lazy Online | **68,802** |
| Percentage of equity interest held by the Group (before deconsolidation) | **51%** |
| Carrying amount of net assets held by the Group (before deconsolidation) | **35,089** |
| Gain on deconsolidation of Lazy Online | **127,911** |
| Cash proceed from the deconsolidation | **—** |
| Less: Cash and cash equivalents of Lazy Online | **101,094** |
| Net cash outflow on the deconsolidation of Lazy Online | **(101,094)** |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 12 FINANCE COSTS

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Interest expense | **10,359** | 17,426 |
| Guarantee expense | **1,746** | 859 |
| Accretion charges of put option liability | **—** | 2,153 |
| | **12,105** | 20,438 |

## 13 INCOME TAX EXPENSE

### (a) Cayman Islands corporate income tax ("CIT")

Under the current laws of Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

### (b) Hong Kong profit tax

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% since January 1, 2010. The operation in Hong Kong has incurred net accumulated operating losses for income tax purposes and no income tax provisions are recorded for the periods presented.

### (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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 13 INCOME TAX EXPENSE (CONTINUED)

### (c) PRC corporate income tax (Continued)

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

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Current income tax | **67,403** | 45,613 |
| Deferred income tax | **34,528** | (15,411) |
| Income tax expense | **101,931** | 30,202 |

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Profit before income tax | **606,244** | 243,691 |
| Share of profit of associates and joint ventures | **(50,984)** | (29,915) |
| Tax calculated at a tax rate of 25% | **138,815** | 53,444 |
| Effects of preferential tax rates applicable to different subsidiaries of the Group | **(54,107)** | (34,217) |
| Unrecognized deferred income tax assets | **3,281** | 8,824 |
| Non-deductible expenses less non-taxable income | **20,536** | 8,341 |
| Research and development tax credit | **(6,594)** | (6,190) |
| Income tax expense | **101,931** | 30,202 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 14 EARNINGS PER SHARE

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

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | (RMB'000, unless specified) | |
| | **(Unaudited)** | |
| Profit attributable to the equity holders of the Company | **505,810** | 212,020 |
| Weighted average number of ordinary shares in issue (thousand) | **878,194** | 727,376 |
| Basic earnings per share (expressed in RMB per share) | **0.58** | 0.29 |

(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, 2018, the Company has the dilutive potential ordinary shares of restricted stock units ("RSUs") granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

For the six months ended June 30, 2017 the Company has the dilutive potential ordinary shares of RSUs granted to employees. RSUs are not included in the computation of diluted loss per share as the RSUs could not be exercised until the Company completes its initial public offering ("IPO"). As at June 30, 2017, such contingent event had not taken place.

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | (RMB'000, unless specified) | |
| | **(Unaudited)** | |
| Profit attributable to the equity holders of the Company | **505,810** | 212,020 |
| Impact of a joint venture's potential ordinary shares | **(528)** | — |
| Net profit used to determine diluted earnings per share | **505,282** | 212,020 |
| Weighted average number of ordinary shares in issue (thousand) | **878,194** | 727,376 |
| Adjustments for share-based compensation - RSUs (thousand) | **15,261** | — |
| Weighted average number of ordinary shares for diluted earnings per share (thousand) | **893,455** | 727,376 |
| Diluted earnings per share (expressed in RMB per share) | **0.57** | 0.29 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 15 DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2018 and 2017.

## 16 PROPERTY, PLANT AND EQUIPMENT

| | Computer equipment RMB'000 | Leasehold improvements RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **(Unaudited)** | | | | | | |
| **Six months ended June 30, 2018** | | | | | | |
| Opening net book amount as at January 1, 2018 | **17,356** | **13,464** | **2,868** | **2,355** | **7** | **36,050** |
| Additions | **4,392** | **22** | **310** | **418** | **1,814** | **6,956** |
| Transfer from construction in progress | **—** | **998** | **—** | **—** | **(998)** | **—** |
| Deconsolidation of a subsidiary | **(983)** | **(156)** | **(20)** | **—** | **—** | **(1,159)** |
| Depreciation | **(3,833)** | **(2,542)** | **(572)** | **(308)** | **—** | **(7,255)** |
| **Closing net book amount as at June 30, 2018** | **16,932** | **11,786** | **2,586** | **2,465** | **823** | **34,592** |

| | Computer equipment RMB'000 | Leasehold improvements RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Six months ended June 30, 2017** | | | | | | |
| Opening net book amount as at January 1, 2017 | 28,228 | 2,876 | 1,464 | 857 | 11,593 | 45,018 |
| Additions | 2,486 | 381 | 254 | 1,844 | 6,933 | 11,898 |
| Disposals | (23) | (190) | (9) | — | — | (222) |
| Transfer from construction in progress | — | 15,974 | 2,552 | — | (18,526) | — |
| Disposal of subsidiaries | — | — | — | (25) | — | (25) |
| Depreciation | (9,993) | (2,936) | (600) | (159) | — | (13,688) |
| **Closing net book amount as at June 30, 2017** | 20,698 | 16,105 | 3,661 | 2,517 | — | 42,981 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 17 INTANGIBLE ASSETS

| | Goodwill RMB'000 | Trademarks RMB'000 | Copyrights of contents RMB'000 | Writers' contracts RMB'000 | Distribution channel relationship RMB'000 | Customers relationship RMB'000 | Software RMB'000 | Domain names RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **(Unaudited)** | | | | | | | | | |
| **Six months ended June 30, 2018** | | | | | | | | | |
| Opening net book amount as at January 1, 2018 | **3,720,323** | **466,814** | **226,566** | **65,999** | **4,841** | **595** | **12,773** | **3,186** | **4,501,097** |
| Additions | **—** | **—** | **74,735** | **—** | **—** | **—** | **6,335** | **—** | **81,070** |
| Deconsolidation of a subsidiary | **—** | **(25,000)** | **(143)** | **—** | **(327)** | **—** | **(15,518)** | **—** | **(40,988)** |
| Amortization | **—** | **(11,623)** | **(50,259)** | **(7,333)** | **(1,938)** | **(287)** | **(2,125)** | **(132)** | **(73,697)** |
| **Closing net book amount as at June 30, 2018** | **3,720,323** | **430,191** | **250,899** | **58,666** | **2,576** | **308** | **1,465** | **3,054** | **4,467,482** |

| | Goodwill RMB'000 | Trademarks RMB'000 | Copyrights of contents RMB'000 | Writers' contracts RMB'000 | Distribution channel relationship RMB'000 | Customers relationship RMB'000 | Software RMB'000 | Domain names RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Six months ended June 30, 2017** | | | | | | | | | |
| Opening net book amount as at January 1, 2017 | 3,715,659 | 586,474 | 204,114 | 80,666 | 84,881 | 1,169 | 4,823 | 3,754 | 4,681,540 |
| Additions | — | — | 52,980 | — | — | — | 4,998 | 62 | 58,040 |
| Business combination | 4,664 | — | — | — | — | — | — | — | 4,664 |
| Amortization | — | (17,916) | (48,113) | (7,333) | (5,820) | (287) | (1,262) | (331) | (81,062) |
| Impairment | — | — | — | — | (51,200) | — | — | — | (51,200) |
| **Closing net book amount as at June 30, 2017** | 3,720,323 | 568,558 | 208,981 | 73,333 | 27,861 | 882 | 8,559 | 3,485 | 4,611,982 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Investments in associates (a) | **182,161** | 184,396 |
| Investments in joint ventures (b) | **374,137** | 157,918 |
| | **556,298** | 342,314 |

### (a) Investments in associates

| | **Six months ended June 30,** | |
|---|---|---|
| | **2018 RMB'000 (Unaudited)** | 2017 RMB'000 |
| At the beginning of the period | **184,396** | 72,934 |
| Additions | **—** | 103,742 |
| Dividend from an associate | **—** | (781) |
| Share of (losses)/profit of the associates | **(2,235)** | 3,138 |
| At the end of the period | **182,161** | 179,033 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

### (b) Investments in joint ventures

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| At the beginning of the period | **157,918** | 54,224 |
| Additions (Note 11(a)) | **163,000** | 9,658 |
| Share of profit of the joint ventures | **53,219** | 26,777 |
| At the end of the period | **374,137** | 90,659 |

### (c) Joint operations

The Group participated in a number of TV drama production and distribution projects with other parties and the Group also has joint operations with content distribution platforms for intellectual property monetization operations. The principal place of business of the joint operations are in the PRC.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 19 FINANCIAL 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 at June 30, 2018 RMB'000 (Unaudited) |
|---|---|
| **Included in non-current assets:** | |
| Investments in redeemable shares of associates | **293,000** |
| **Included in current assets:** | |
| Derivative financial assets | **37,823** |
| | **330,823** |

Movement of FVPL is analysed as follows:

| | Six months ended June 30, 2018 RMB'000 (Unaudited) |
|---|---|
| At the beginning of the period | **—** |
| Adjustment on adoption of IFRS 9 (Note 4) | **304,594** |
| Changes in fair value (Note 11) | **26,229** |
| At the end of the period | **330,823** |

As at June 30, 2018, the FVPL balance included the Group's investment of RMB226,000,000 in the redeemable shares of an associate which is an online audio sharing platform. The Group used the market approach to determine the fair value of such investment, and key assumption used was the IPO probability of 45%.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 20 DEFERRED INCOME TAXES

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

| | Provision for inventory obsolescence RMB'000 | Tax losses RMB'000 | Provision for doubtful receivables and other temporary differences RMB'000 | Intangible assets acquired in business combination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| (Unaudited) | | | | | |
| As at January 1, 2018 | **3,186** | **559** | **(41,465)** | **(135,861)** | **(173,581)** |
| Recognized in the profit or loss | **—** | **292** | **(41,376)** | **6,556** | **(34,528)** |
| Deconsolidation of a subsidiary | **—** | **—** | **—** | **6,331** | **6,331** |
| As at June 30, 2018 | **3,186** | **851** | **(82,841)** | **(122,974)** | **(201,778)** |
| As at January 1, 2017 | 10,950 | — | (12,730) | (190,784) | (192,564) |
| Recognized in the profit or loss | 1,131 | 864 | (7,650) | 21,066 | 15,411 |
| As at June 30, 2017 | 12,081 | 864 | (20,380) | (169,718) | (177,153) |

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at June 30, 2018, the Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB159,602,000 (December 31, 2017: RMB159,692,000). These tax losses will primarily expire from 2018 to 2022.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 21 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 at January 1, 2018 | **906,417,239** | **569** | **12,143,464** | **(23)** | **12,144,010** |
| Transfer of vested RSUs | **—** | **—** | **(4)** | **4** | **—** |
| As at June 30, 2018 | **906,417,239** | **569** | **12,143,460** | **(19)** | **12,144,010** |

| | Number of ordinary shares | Share capital RMB'000 | Share premium RMB'000 | Shares held for RSU scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| As at January 1, 2017 | 699,843,620 | 431 | 5,311,029 | — | 5,311,460 |
| Issuance of ordinary shares (Note (a)) | 30,201,818 | 21 | 687,744 | — | 687,765 |
| As at June 30, 2017 | 730,045,438 | 452 | 5,998,773 | — | 5,999,225 |

Note:

(a) In January 2017, 30,201,818 ordinary shares of the Company were allotted and issued to three existing shareholders of the Company at a price of USD3.31 per share for an aggregated consideration of approximately USD100,000,000 (equivalent to approximately RMB687,765,000). These shares rank pari passu in all respects with the shares in issue.

The excess over the par value for the 30,201,818 ordinary shares issued was credited to the share premium account with aggregate amount of approximately RMB687,744,000.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 22 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Non-current: | | |
| Deposits and prepayments | **22,593** | 20,655 |
| Deferred compensation cost | **—** | 2,213 |
| | **22,593** | 22,868 |
| Current: | | |
| Receivable related to RSUs withholding IIT | **90,351** | 175,570 |
| Prepayments to vendors and online writers | **62,525** | 52,682 |
| Interests receivable | **35,945** | 28,732 |
| Royalty advances (Note (a)) | **15,463** | 8,656 |
| Rental and other deposits | **9,153** | 13,891 |
| Staff advances | **4,306** | 3,165 |
| Amounts due from related parties | **1,225** | 700 |
| Deferred license fees and related costs | **517** | 488 |
| Others | **32,710** | 11,928 |
| | **252,195** | 295,812 |

Notes:

(a) Royalty advances to writers are capitalized and, upon publication, are recovered as royalties are earned based on the fixed ratio of royalty for each book sold. Royalty advances are reviewed for recoverability and a reserve for loss is maintained, if appropriate.

The directors of the Company considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as at June 30, 2018 and December 31, 2017. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 23 INVENTORIES

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Self-produced TV drama under progress and TV drama production under joint operations | **154,124** | 59,585 |
| Inventories held with distributors on consignment | **109,048** | 93,702 |
| Inventories in warehouse | **82,777** | 71,316 |
| Work in progress | **21,221** | 27,861 |
| Raw materials | **14,659** | 15,757 |
| Others | **51,158** | 33,153 |
| | **432,987** | 301,374 |
| Less: provision for inventory obsolescence | **(94,037)** | (78,888) |
| | **338,950** | 222,486 |

During the six months ended June 30, 2018, the cost of physical inventories recognized as expense and included in "cost of revenues" amounted to approximately RMB67,850,000 (six months ended June 30, 2017: RMB67,063,000); the cost of animation products (included in "Inventories - others") recognized as expense and included in "cost of revenues" amounted to approximately RMB23,347,000 (six months ended June 30, 2017: RMB25,168,000).

TV and film products are stated at the lower of cost or net realisable value, and they will be expensed in the consolidated statement of comprehensive income when the completed TV and film products are delivered to the publishers and right to receive payment is established.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 24 TRADE AND NOTES RECEIVABLES

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

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Trade and notes receivables | | |
| – Up to 3 months | **546,120** | 538,699 |
| – 3 to 6 months | **24,606** | 114,785 |
| – 6 months to 1 year | **24,151** | 85,809 |
| – 1 to 2 years | **2,996** | 17,196 |
| – Over 2 years | **8,463** | 3,494 |
| | **606,336** | 759,983 |

As at June 30, 2018 and December 31, 2017, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days. As at June 30, 2018, only insignificant amounts of the remaining balances were past due.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as at June 30, 2018 and December 31, 2017.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 25 OTHER RESERVES

| | Contribution from holding company RMB'000 | Currency translation differences RMB'000 | Put option on non-controlling interests RMB'000 | Share-based compensation reserve RMB'000 | Statutory surplus reserve fund RMB'000 | Capital reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **(Unaudited)** | | | | | | | |
| **As at January 1, 2018** | **34,127** | **(133,067)** | **10,964** | **348,361** | **56,128** | **(7,281)** | **309,232** |
| Currency translation differences | **—** | **90,129** | **—** | **—** | **—** | **—** | **90,129** |
| Share-based compensation expenses | **—** | **—** | **—** | **75,746** | **—** | **—** | **75,746** |
| Acquisition of non-controlling interests (Note (a)) | **—** | **—** | **—** | **—** | **—** | **(23,656)** | **(23,656)** |
| **As at June 30, 2018** | **34,127** | **(42,938)** | **10,964** | **424,107** | **56,128** | **(30,937)** | **451,451** |
| **As at January 1, 2017** | 31,024 | 17,063 | (65,396) | 211,402 | 24,066 | (7,281) | 210,878 |
| Currency translation differences | — | (21,835) | — | — | — | — | (21,835) |
| Share-based compensation expenses | 305 | — | — | 52,295 | — | — | 52,600 |
| Others | 2,295 | — | — | — | — | — | 2,295 |
| **As at June 30, 2017** | 33,624 | (4,772) | (65,396) | 263,697 | 24,066 | (7,281) | 243,938 |

Note:

(a) During the six months ended June 30, 2018, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, Tianjin Shengda Tianfang Tingshu Information Technology Co., Ltd., and the aggregate net excess of considerations over the carrying amounts of acquired net non-controlling interests, being approximately RMB23,656,000, was recognised directly in equity. The considerations shall be settled in cash, among which RMB5,000,000 has already been settled as at June 30, 2018, and the remaining consideration amounting to RMB14,875,000 is recorded as "other payables and accruals" in the consolidated statement of financial position.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26 SHARE-BASED PAYMENTS

### (a) Share-based compensation plans of Tencent

Tencent operates a number of share-based compensation plans (including share option scheme and share award scheme) covering certain employees of the Group.

Movements in the number of RSUs outstanding that granted to the employees of the Group are as follows:

| | Number of RSUs |
|---|---|
| **(Unaudited)** | |
| As at January 1, 2018 and June 30, 2018 | **10,000** |
| As at January 1, 2017 and June 30, 2017 | 39,500 |

The fair value of the awarded shares was calculated based on the market price of the Tencent's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

### (b) Share-based compensation plans of the Group

The Company has adopted a share award scheme on December 23, 2014 to the extent of 25,000,000 new ordinary shares of the Company for the purposes of attracting and retaining the best available personnel, to provide additional incentives to employees, directors and consultants and to promote the success of the Group's business (the "2014 Equity Incentive Plan").

Pursuant to the RSUs agreements under 2014 Equity Incentive Plan, subject to grantee's continued service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 20% of the RSUs on each of the first five anniversaries of the grant date.

On March 12, 2016, the Company adopted amended and restated 2014 Equity Incentive Plan. According to the amended and restated 2014 Equity Incentive Plan, subject to grantee's continued service to the Group through the applicable vesting date, all RSUs vested and to be vested shall be settled on a date as soon as practicable after the RSUs vest and the completion of a defined initial public offering of the Company.

As such, the Group modified the terms of conditions of its granted RSUs that are not beneficial to its employees. This should not be taken into account when considering the estimate of the number of equity instruments expected to vest and the Group continues to account for the RSUs without any original grants changes.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 26 SHARE-BASED PAYMENTS (CONTINUED)

### (b) Share-based compensation plans of the Group (Continued)

Movements in the number of RSUs outstanding is as follows:

| | Number of RSUs |
|---|---|
| **(Unaudited)** | |
| As at January 1, 2018 | **20,303,500** |
| Forfeited | **(394,000)** |
| Vested | **(1,156,500)** |
| Outstanding balance as at June 30, 2018 | **18,753,000** |
| As at January 1, 2017 | 11,131,500 |
| Granted | 5,807,500 |
| Forfeited | (25,000) |
| Outstanding balance as at June 30, 2017 | 16,914,000 |

The fair value of each RSUs at the grant date, namely January 17, 2017, were determined by reference to the estimated fair value of the ordinary share of the Company.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 27 BORROWINGS

| | As at June 30, 2018 RMB'000 (Unaudited) | As at December 31, 2017 RMB'000 |
|---|---|---|
| Non-current | **—** | 475,000 |
| Current | **475,000** | — |
| | **475,000** | 475,000 |

In March 2017, one of the Group's subsidiaries, Shanghai Yuewen Information Technology Co., Ltd. ("Shanghai Yuewen"), entered into a two-year loan facility agreement with Bank of Communications, Shanghai Branch, where a loan facility up to RMB500,000,000 was made available to Shanghai Yuewen. As at June 30, 2018, the short-term borrowing balance of RMB475,000,000 consisted of two borrowings of RMB403,326,880 and RMB71,673,120, respectively, borrowed from Bank of Communications under the loan facility agreement. The loans bore a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum and will be repayable in March 2019. The loan facility was guaranteed by Bank of Communications, Tokyo Branch.

## 28 TRADE PAYABLES

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

| | As at June 30, 2018 RMB'000 (Unaudited) | As at December 31, 2017 RMB'000 |
|---|---|---|
| – Up to 3 months | **620,609** | 506,021 |
| – 3 to 6 months | **127,460** | 65,314 |
| – 6 months to 1 year | **77,380** | 53,920 |
| – 1 to 2 years | **8,080** | 9,276 |
| – Over 2 years | **29,688** | 22,422 |
| | **863,217** | 656,953 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 29 OTHER PAYABLES AND ACCRUALS

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Advertising and marketing expense accruals | **101,840** | 138,627 |
| Staff costs and welfare accruals | **61,600** | 116,842 |
| Professional service fee payable | **46,587** | 37,257 |
| Other tax payable | **27,190** | 30,903 |
| Prepayments received from customers | **19,371** | 61,921 |
| Consideration payable related to the acquisition of non-controlling interests (Note 25(a)) | **14,875** | 500 |
| IIT refunds payable | **14,284** | — |
| Payables related to transfer of intangible asset | **9,083** | 9,083 |
| Payables related to investments | **5,000** | 42,200 |
| Special funds payable | **4,868** | 4,868 |
| Logistic fee payable | **2,296** | 2,000 |
| Sales rebate accruals | **1,785** | 953 |
| Interests payable | **564** | 620 |
| Withholding IIT payable related to RSUs | **—** | 175,570 |
| Amount received for capital injection to a non-wholly owned subsidiary of the Group (Note 11(a)) | **—** | 50,050 |
| Outsourcing game development fee payable | **—** | 3,900 |
| Others | **43,546** | 44,352 |
| | **352,889** | 719,646 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 30 COMMITMENTS

The Group leases servers and office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| Not later than one year | **50,928** | 44,395 |
| Later than one year and not later than five years | **92,457** | 108,261 |
| Later than 5 years | **1,843** | 5,530 |
| | **145,228** | 158,186 |

## 31 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at June 30, 2018 and December 31, 2017.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32 RELATED PARTY TRANSACTIONS

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

| Name of major related parties | Relationship with the Company |
|---|---|
| Tencent Holdings Limited | Ultimate holding company |
| Oriental Power Holdings Limited | Fellow subsidiary |
| Shenzhen Tencent Computer Systems Company Limited | Fellow subsidiary |
| Tencent Technology (Shenzhen) Company Limited | Fellow subsidiary |
| Tencent Cloud Computing (Beijing) Company Limited | Fellow subsidiary |
| Tencent Technology (Beijing) Company Limited | Fellow subsidiary |
| Tencent Asset Management Limited | Fellow subsidiary |
| Shanghai Tencent Penguin Film Culture Co., Ltd. | Fellow subsidiary |
| Shanghai Tencent Film Culture Co., Ltd. | Fellow subsidiary |
| Beijing BIZCOM Technology Company Limited | Fellow subsidiary |
| Shenzhen Tencent Anime Comic Company Limited | Fellow subsidiary |
| Beijing Jinjiang Networking Technology Co., Ltd. | Joint venture of the Group |
| Cangqiong Interactive Entertainment (Tianjin) Culture Co., Ltd. | Joint venture of the Group |
| Tianjin Wenmeng Interactive Entertainment Co., Ltd. | Joint venture of the Group |
| Shenzhen Lazy Online Technology Co., Ltd. | Joint venture of the Group |
| Ningbo Yuewen Yuandongli Culture Industry Investment LLP | Associate of the Group |
| Hangzhou Wawayu Animation Design Co., Ltd. | Associate of the Group |
| Shanghai Foch Film Culture Investment Co., Ltd. | Associate of the Group |
| Chongqing Caiseqianbi Animation Design Co., Ltd. | Associate of the Group |
| JD.com, Inc. | Associate of the ultimate holding company |
| Sogou, Inc. | Associate of the ultimate holding company |
| Guangzhou Tianwen Kadokawa Animation and Comics Co., Ltd. | Associate of the ultimate holding company |
| Khorgas Linmon Pictures Media Co., Ltd. | Associate of the ultimate holding company |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Copyrights licensing, provision of advertising and management services and sales of physical books - recognized in revenue

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Fellow subsidiaries | **188,368** | 73,576 |
| Associates of the ultimate holding company | **35,246** | 40,388 |
| Associates of the Group | **1,155** | 1,164 |
| Joint ventures of the Group | **33,950** | 3,774 |
| | **258,719** | 118,902 |

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

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Fellow subsidiaries | **160,770** | 169,690 |
| Associates of the ultimate holding company | **668** | 9,910 |
| Associates of the Group | **39,584** | 5,013 |
| Joint ventures of the Group | **2,254** | 2,093 |
| | **203,276** | 186,706 |

### (c) Interest income

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Fellow subsidiaries | **—** | 7,500 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Interest expense

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Fellow subsidiaries | **—** | 12,237 |

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

| | **As at June 30, 2018** | As at December 31, 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| **Trade receivables** | | |
| Fellow subsidiaries | **333,555** | 434,562 |
| Associates of the ultimate holding company | **20,592** | 25,326 |
| Joint ventures of the Group | **5,901** | 539 |
| | **360,048** | 460,427 |

| | **As at June 30, 2018** | As at December 31, 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| **Prepayments, deposits and other receivables** | | |
| Fellow subsidiaries | **356** | 434 |
| Associates of the ultimate holding company | **89** | 266 |
| | **445** | 700 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| **Trade payables** | | |
| Fellow subsidiaries | **104,122** | 83,153 |
| Associates of the ultimate holding company | **270** | 1 |
| Associates of the Group | **16,400** | 736 |
| Joint venture of the Group | **748** | 1,470 |
| | **121,540** | 85,360 |

| | **As at June 30, 2018 RMB'000 (Unaudited)** | As at December 31, 2017 RMB'000 |
|---|---|---|
| **Other payables and accruals** | | |
| Fellow subsidiaries | **13,699** | 97,521 |
| Associates of the ultimate holding company | **900** | — |
| Associates of the Group | **1,137** | 12,300 |
| Joint venture of the Group | **5,000** | 32,200 |
| | **20,736** | 142,021 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

### (f) Key management compensation

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | |
| Salaries, wages and bonuses | **5,918** | 4,092 |
| Other social security costs, housing benefits and other employee benefits | **147** | 139 |
| Pension costs - defined contribution plans | **103** | 95 |
| Share-based compensation expenses | **3,946** | 7,397 |
| | **10,114** | 11,723 |

## 33 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On August 13, 2018, the Company entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest in Qiandao Lake Holdings Limited (the "Target"), being a company incorporated with limited liability in the Cayman Islands, upon completion of certain conditions. The Target mainly operates its business through the PRC incorporated operating entity New Classics Media Corporation and its subsidiaries. The Target together with its operating entities are principally engaged in production and distribution of television series, web series and films. The aggregate nominal consideration for the acquisition is approximately RMB15.5 billion and will be subject to the earn out mechanism that set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the share purchase agreement.

# DEFINITIONS

| | | |
|---|---|---|
| "Administrator" | : | the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board; |
| "Audit Committee" | : | the audit committee of the Company; |
| "Auditor" | : | the external auditor of the Company; |
| "Award(s)" | : | the restricted stock unit(s) granted under the RSU Plan; |
| "Award Agreement(s)" | : | the agreements evidencing the grant of the Awards; |
| "Board" | : | the board of Directors of the Company; |
| "CG Code" | : | the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules; |
| "China" or the "PRC" | : | the People's Republic of China; |
| "Company", "our Company", "the Company" | : | China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772; |
| "Director(s)" | : | the director(s) of our Company; |
| "Group", "our Group", "the Group", "we", "us", or "our" | : | the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time; |
| "HKD" | : | the lawful currency of Hong Kong; |
| "IPO" | : | initial public offering; |
| "IPO Proceeds" | : | the total net proceeds of HK$7,235 million from the Company's global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses; |
| "Listing Date" | : | November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange; |
| "Listing Rules" | : | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time; |
| "Main Board" | : | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange; |

# DEFINITIONS

| | | |
|---|---|---|
| "MAUs" | : | monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least; |
| "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; |
| "Prospectus" | : | the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering; |
| "Reporting Period" | : | the six months ended June 30, 2018; |
| "Restricted Period" | : | the restricted period of RSUs which commences on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement; |
| "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; |
| "Shanghai Yuewen" | : | Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014; |
| "Share(s)" | : | ordinary share(s) in the share capital of our Company with a par value of US$0.0001 each; |
| "Shareholders" | : | holder(s) of our Share(s); |
| "Stock Exchange" | : | The Stock Exchange of Hong Kong Limited; |
| "subsidiary(ies)" | : | has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time; |
| "Tencent" | : | Tencent Holdings Limited, our controlling shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700); and |
| "USD" | : | the lawful currency of the United States. |