CHINA LITERATURE LIMITED
閱 文 集 團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

The board of directors of China Literature Limited is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2017. The results have been audited by the Auditor in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Year ended December 31,		
	2017	2016	Year-over-year
	RMB' 000	RMB' 000	(%)
Revenues	**4,095,066**	2,556,866	60.2
Gross profit	**2,075,440**	1,054,847	96.8
Operating profit	**510,776**	33,323	1,432.8
Profit before income tax	**645,730**	38,318	1,585.2
Profit for the year	**562,692**	30,360	1,753.4
Profit attributable to equity holders of the Company	**556,129**	36,683	1,416.0
Adjusted profit attributable to equity holders of the Company	**721,817**	85,255	746.7

BUSINESS REVIEW AND OUTLOOK

2017 Results Highlights

Our total revenues increased by 60.2% from RMB2,556.9 million in 2016 to RMB4,095.1 million for the year ended December 31, 2017. Gross profit over the same period increased by 96.8% from RMB1,054.8 million in 2016 to RMB2,075.4 million in 2017. Operating profit increased sharply from RMB33.3 million in 2016 to RMB510.8 million in 2017. Profit attributable to equity holders of the Company similarly rose from RMB36.7 million in 2016 to RMB556.1 million in 2017.

Our gross margin increased from 41.3% in 2016 to 50.7% in 2017, our operating margin increased from 1.3% in 2016 to 12.5% in 2017, and our net margin increased from 1.2% in 2016 to 13.7% in 2017.

Our average MAUs for the year ended December 31, 2017 increased by 12.7% year-over-year to 191.5 million — 179.4 million on mobile and 12.1 million on PCs. Over the same period, we had 11.1 million average MPUs, representing an increase of 33.7% from 8.3 million in 2016.

Our flagship mobile application, the *QQ Reading*, was rewarded as the "Most User Engaged Mobile Apps in Top 10 Sectors", "Top 10 Most Favorite Mobile Apps in Second Tier Cities" and "Top 9 Cross-Platform Traffic Mobile Apps" according to the 2017 China Mobile Internet Report, published by *QuestMobile*.

Business Review

We nurture, connect and develop major constituents of the online literature ecosystem, including writers, content, readers, channels, and content adaption partners.

Core to our business model and future growth is the systematic recruitment, support, and marketing of new and established writers. We work with writers in customized ways to increase the popularity and commercial potential of their work. We conduct offline writer training programs and seminars, supplemented by frequent online interaction with our editors and lectures on our Weixin Official Accounts. We provide customized marketing support to raise the profiles of key writers and enhance their individual brands, including exposure on various TV channels, press conferences and recognition with various awards.

As of December 31, 2017, we had 6.9 million writers on our platform. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 43.0 billion individual characters were added on our platform in 2017.

Equally important to our business model, particularly in the crucial mobile market, is to expand our readership through better content offerings, enhanced user experiences, and additional distribution channels.

For our original content offerings, we have focused on expanding into new literary genres, especially our coverage of niche literary categories. In 2017, we introduced a number of new and popular genres, including military, sports, light novels, as well as comic fiction. We also introduced more e-book versions of film and television novels, such as *Youth* (芳華), and the Chinese e-book version of *The Song of Ice and Fire* (冰與火之歌).

As of December 31, 2017, our content library totaled 10.1 million works, including 9.7 million original literary works created by writers on our platform, 280,000 works sourced from third-party online platforms and 140,000 e-books.

In 2017, we continued to improve our user experience by adding functions and services. For example, we improved social interaction and deepened engagement between writers and readers via writer's Q&A column, as well as introducing a reader feedback function that allows readers to comment on each paragraph while at the same time communicating with each other when reading.

Data analytics is an increasingly valuable component of our business model. During 2017, we enhanced our reader recommendation algorithms via data analytics and artificial intelligence technology, and we upgraded our navigation functions via better integrating our platform infrastructure and better tagging our content.

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

Developing, protecting, and monetizing our and our writers' IP is a key focus. During the course of the year, we sub-licensed over 100 online literary works to business partners for adaptation into other entertainment formats. By December 31, 2017, we had established over 200 content adaptation partnerships. Some of the highlights included co-investment projects for TV and web series on *Our Glamorous Time (你和我的傾城時光)*, *Martial Universe (武動乾坤)* and *Ever Night (將夜)*. We also produced a number of animations based on original content IP during 2017, including *The King's Avatar (全職高手)*, *Battle Through the Heavens (鬥破蒼穹)*, as well as new seasons for *Full-Time Magister (全職法師)* and *Fighter of the Destiny (擇天記)*. Of these, *The King's Avatar* was the most successful, and won a number of major awards. We also developed theme characters and theme restaurants around *The King's Avatar*.

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

Outlook

Our focus through 2018 will be on further building up the scale and capabilities of our ecosystem, increasing the depth of our content library and expanding it into new genres. We are investing in driving technological innovation to improve the user experience and are diversifying our distribution channels so that we are able to reach more users. We are increasingly investing in, and involved in, adapting our IP into different content formats. We are committed to building the best platform for our writers and for our readers, which we believe will position us for long term content-driven and user-driven sustainability and growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Revenues	**4,095,066**	2,556,866
Cost of revenues	**(2,019,626)**	(1,502,019)
Gross profit	**2,075,440**	1,054,847
Selling and marketing expenses	**(965,121)**	(734,176)
General and administrative expenses	**(710,266)**	(421,264)
Other gains, net	**110,723**	133,916
Operating profit	**510,776**	33,323
Finance costs	**(35,170)**	(27,092)
Finance income	**103,787**	3,939
Share of profit of investments accounted for using equity method	**66,337**	28,148
Profit before income tax	**645,730**	38,318
Income tax expense	**(83,038)**	(7,958)
Profit for the year	**562,692**	30,360
Attributable to:		
Equity holders of the Company	**556,129**	36,683
Non-controlling interests	**6,563**	(6,323)
	562,692	30,360
Adjusted profit for the year	**729,995**	81,124
Attributable to:		
Equity holders of the Company	**721,817**	85,255
Non-controlling interests	**8,178**	(4,131)
	729,995	81,124

Revenues. Revenues increased by 60.2% to RMB4,095.1 million for the year ended December 31, 2017 on a year-over-year basis. The following table sets forth our revenues by line of business for the years ended December 31, 2017 and 2016:

	Year ended December 31,			
	2017		2016	
	RMB' 000	**%**	RMB' 000	%
Online reading				
On our self-owned platform products	**1,873,557**	**45.8**	1,057,641	41.2
On our self-operated channels on Tencent products	**1,081,944**	**26.4**	666,438	26.1
On third-party platforms	**465,077**	**11.4**	249,984	9.8
Total online reading	**3,420,578**	**83.6**	1,974,063	77.1
Intellectual property operations	**366,221**	**8.9**	247,408	9.7
Physical books	**201,064**	**4.9**	224,033	8.8
Others	**107,203**	**2.6**	111,362	4.4
Total Revenues	**4,095,066**	**100.0**	2,556,866	100.0

— Revenues from online reading increased by 73.3% to RMB3,420.6 million for the year ended December 31, 2017 on a year-over-year basis.

Revenues from online reading on our products and self-operated channels increased by 71.4% to RMB2,955.5 million in 2017. The increase was mainly driven by the growth in both the number of paying users and the average revenue per paying user ("ARPU"), largely as a result of the continuous increase in our user engagement and our users' growing readiness to pay for premium online literature content. Average MPUs increased by 33.7% year-over-year to 11.1 million. Monthly ARPU increased by 28.2% year-over-year to RMB22.3. Average MAUs increased by 12.7% from 169.9 million in 2016 to 191.5 million in 2017, of which MAUs on our platform increased from 80.8 million in 2016 to 90.9 million in 2017 and MAUs on the self-operated channels increased from 89.1 million in 2016 to 100.6 million in 2017. Paying ratio increased from 4.9% in 2016 to 5.8% in 2017.

The following table summarizes our key operating data for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	2016
Average MAUs on our platform and self-operated channels (average of MAUs for each calendar month)	**191.5 million**	169.9 million
Average MPUs on our platform and self-operated channels (average of MPUs for each calendar month)	**11.1 million**	8.3 million
Paying Ratio(1)	**5.8%**	4.9%
Monthly ARPU(2)	**RMB22.3**	RMB17.4

Notes:

(1) Calculated as average MPU divided by average MAU for a certain period.

(2) Calculated as online reading revenues on our platform 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.

Revenues from online reading on third-party platforms increased by 86.0% to RMB465.1 million in 2017. The increase was primarily due to our expanded network of third-party distribution channels which enabled us to engage the growing user base and the growth of the online reading revenues generated through most of our existing third-party partners.

— Revenues from intellectual property operations increased by 48.0% to RMB366.2 million for the year ended December 31, 2017 on a year-over-year basis. The increase was primarily due to the increase of revenues from licensing copyrights for the adaptation of TV and web series, animations, games as well as films, the growth and strengthening of our content, its growing commercial value, the rising demand from our content adaptation partners for our high quality literary titles, as well as our increasing pricing and bargaining power in terms of licensing copyrights to content adaptation partners.

— Revenues from physical books decreased by 10.3% to RMB201.1 million for the year ended December 31, 2017 on a year-over-year basis, mainly because we synthesized and adjusted our offline physical book business line and distribution channels in 2017.

— Revenues from others decreased by 3.7% to RMB107.2 million for the year ended December 31, 2017 on a year-over-year basis. Our revenues from others are mainly derived from online games and online advertising services.

Cost of revenues. Cost of revenues increased by 34.5% to RMB2,019.6 million for the year ended December 31, 2017 on a year-over-year basis. The increase mainly reflected greater content costs and online reading platform distribution costs. Content costs increased by 52.6% to RMB1,280.0 million for the year ended December 31, 2017 on a year-over-year basis. The increase primarily reflected the increase in our online reading and intellectual property operations revenues and the resultant higher amount of fees paid to a growing number of contracted writers pursuant to the revenue-sharing arrangements. Distribution costs for the online reading platform increased by 55.4% to RMB237.7 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly driven by our increased revenues of online reading on our self-operated channels on Tencent products.

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

	Year ended December 31,			
	2017		2016	
	RMB' 000	**%**	RMB' 000	%
Content costs	**1,280,011**	**31.3**	838,975	32.8
Online reading platform distribution costs	**237,704**	**5.8**	152,971	6.0
Amortization of intangible assets	**110,093**	**2.7**	128,071	5.0
Cost of physical inventories recognized as expenses	**144,804**	**3.5**	151,003	5.9
Others	**247,014**	**6.0**	230,999	9.0
Total cost of revenues	**2,019,626**	**49.3**	1,502,019	58.7

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 96.8% to RMB2,075.4 million for the year ended December 31, 2017 on a year-over-year basis. Our gross margin increased from 41.3% in 2016 to 50.7% in 2017, primarily as a result of the shift of business towards online reading and intellectual property operations, our efficient cost control measures as well as increased economies of scale.

Selling and marketing expenses. Selling and marketing expenses increased by 31.5% to RMB965.1 million for the year ended December 31, 2017 on a year-over-year basis. The increase mainly reflected the increases in (i) promotion and advertising expenses as our business expanded, and (ii) payment handling costs, largely as a result of the increase in online reading revenues and more payments handled by channels with higher charge rates. As a percentage of revenues, selling and marketing expenses decreased to 23.6% for the year ended December 31, 2017 from 28.7% for the year ended December 31, 2016, primarily because the growth in our revenues outpaced the growth in selling and marketing expenses as a result of increased economies of scale.

General and administrative expenses. General and administrative expenses increased by 68.6% to RMB710.3 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly driven by greater employee benefits expenses and professional services fees incurred in connection with the IPO. As a percentage of revenues, general and administrative expenses increased to 17.3% for the year ended December 31, 2017 from 16.5% for the year ended December 31, 2016.

Other gains, net. We recorded net other gains, totalling RMB110.7 million for the year ended December 31, 2017, compared with RMB133.9 million for the year ended December 31, 2016. Our other gains in 2017 primarily consisted of (i) fair value gain of investments in redeemable shares of associates of RMB97.5 million, (ii) gain on disposals of subsidiaries of RMB60.9 million relating to Shanghai Foch Film Culture Investment Co., Ltd. and Tianjin Ruinuo Technology Co., Ltd., (iii) government subsidies of RMB32.6 million, (iv) fair value gain of derivative financial assets of RMB30.1 million, and (v) foreign exchange gain of RMB24.6 million, which was partially offset by the impairment loss of intangible assets of RMB156.3 million recorded during the period. The impairment loss of intangible assets was in relation to (i) the trademark impairment of certain subsidiaries of Cloudary that we acquired in 2014, and (ii) the distribution channel relationship with certain telecom operators due to a notable decline in actual revenue realized and potential revenue to be generated from the business cooperation with such telecom operators in 2017.

Operating profit. As a result of the foregoing, we had an operating profit of RMB510.8 million for the year ended December 31, 2017, as compared with RMB33.3 million in the previous year. Operating margin increased from 1.3% in 2016 to 12.5% in 2017.

Finance costs. Finance costs increased by 29.8% to RMB35.2 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly due to higher interest expense incurred in connection with our borrowings.

Finance income. Finance income increased from RMB3.9 million for the year ended December 31, 2016 to RMB103.8 million for the year ended December 31, 2017. The increase was mainly due to higher interest income arising from IPO subscription deposits and bank deposits.

Share of profits of investments accounted for using equity method. Our share of profits of investments accounted for using equity method increased from RMB28.1 million in 2016 to RMB66.3 million in 2017, principally as a result of greater profits generated from our investee companies using equity method during 2017.

Income tax expense. Income tax expense increased from RMB8.0 million in 2016 to RMB83.0 million in 2017, mainly driven by our greater profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased significantly from RMB36.7 million in 2016 to RMB556.1 million in 2017.

Other Financial Information

	Year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Adjusted operating profit(1)	**754,715**	118,104
Adjusted EBITDA(2)	**759,276**	184,425
Adjusted profit for the year(3)	**729,995**	81,124
Adjusted profit attributable to equity holders of the Company(4)	**721,817**	85,255
Interest expense	**29,843**	22,910
Net cash(5)	**8,131,710**	(136,707)
Capital expenditures(6)	**133,317**	133,092

Notes:

(1) Adjusted operating profit is defined as operating profit for the year adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets and one-off listing expenses.

(2) Adjusted EBITDA is calculated by EBITDA (which is operating profit for the year less other gains, net and plus depreciation and amortization expenses) for the year plus share-based compensation and one-off listing expenses.

(3) Adjusted profit for the year is defined as profit for the year adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets, one-off listing expenses, interest income on IPO subscription deposits and tax effects.

(4) Adjusted profit attributable to equity holders of the Company is defined as profit attributable to equity holders of the Company adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets, one-off listing expenses, interest income on IPO subscription deposits, tax effects and related non-controlling interests effects.

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

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

Non-International Financial Reporting Standards ("IFRS") Financial Measure:

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

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

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the years ended December 31, 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of operating profit to adjusted operating profit:		
Operating profit for the year	**510,776**	33,323
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies[1]	**(158,380)**	(33,000)
Amortization of intangible assets[2]	**63,117**	82,965
Net (gain) from convertible bonds[3]	**—**	(92,207)
One-off listing expenses	**45,502**	—
Impairment provision[4]	**156,254**	49,000
Adjusted operating profit	**754,715**	118,104

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of operating profit to EBITDA and adjusted EBITDA:		
Operating profit for the year	**510,776**	33,323
Add:		
Other (gains), net	**(110,723)**	(133,916)
Depreciation of property, plant and equipment	**22,239**	14,531
Amortization of intangible assets	**154,036**	192,464
EBITDA	**576,328**	106,402
Add:		
Share-based compensation	**137,446**	78,023
One-off listing expenses	**45,502**	—
Adjusted EBITDA	**759,276**	184,425

	Year ended December 31, 2017 RMB' 000	2016 RMB' 000
Reconciliation of profit for the year to adjusted profit for the year:		
Profit for the year	**562,692**	30,360
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies[1]	**(158,380)**	(42,150)
Amortization of intangible assets[2]	**63,117**	82,965
Net (gain) from convertible bonds[3]	**—**	(92,207)
Impairment provision[4]	**156,254**	49,000
One-off listing expenses	**45,502**	—
Interest income on IPO subscription deposits	**(55,575)**	—
Tax effects	**(21,061)**	(24,867)
Adjusted profit for the year	**729,995**	81,124

	Year ended December 31, 2017 RMB' 000	2016 RMB' 000
Reconciliation of profit attributable to equity holders of the Company to adjusted profit attributable to equity holders of the Company:		
Profit attributable to equity holders of the Company	**556,129**	36,683
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies[1]	**(158,380)**	(42,150)
Amortization of intangible assets[2]	**63,117**	82,965
Net (gain) from convertible bonds[3]	**—**	(92,207)
Impairment provision[4]	**156,254**	49,000
One-off listing expenses	**45,502**	—
Interest income on IPO subscription deposits	**(55,575)**	—
Tax effects	**(21,061)**	(24,867)
Non-controlling interests effects	**(1,615)**	(2,192)
Adjusted profit attributable to equity holders of the Company	**721,817**	85,255

Notes:

(1) Includes fair value gain of investments in redeemable shares of associates, dilution gain, and gain on disposal of investee companies.

(2) Represents amortization of intangible assets resulting from acquisitions.

(3) Includes gain on redemption of convertible bonds.

(4) Includes impairment provision for intangible assets.

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets grew from RMB7,131.7 million as of December 31, 2016 to RMB15,137.4 million as of December 31, 2017, whilst our total liabilities changed from RMB1,923.4 million as of December 31, 2016 to RMB2,474.7 million as of December 31, 2017. Liabilities-to-assets ratio changed from 27.0% at the end of 2016 to 16.3% at the end of 2017.

As of December 31, 2017, the current ratio (being the ratio of total current assets to the total current liabilities) was 534.8% (2016: 127.5%).

As of December 31, 2017, our Group has not pledged any assets as security.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contribution from shareholders, cash generated from our operations, and borrowings from related parties and bank loans. As of December 31, 2017, our Group had net cash of RMB8,131.7 million. The sequential increase in net cash in 2017 was mainly due to the issuance of ordinary shares and net cash generated from our business growth. Our bank balances and term deposits are primarily held 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 December 31, 2017, our Group's gearing ratio was 3.8% (2016: 11.1%).

As of December 31, 2017, our total borrowings were RMB475.0 million, which were primarily denominated in RMB and related to a long-term borrowing balance of RMB475.0 million borrowed from Bank of Communications, Shanghai Branch, with a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum due in March 2019. The borrowing was under the loan facility agreement up to RMB500.0 million, which Shanghai Yuewen, one of our Group's subsidiary, and Bank of Communications, Shanghai Branch, entered into, with guarantee from Bank of Communications, Tokyo Branch. As of December 31, 2017, our Group's unutilized banking facility under the aforementioned loan facility agreement was RMB25.0 million.

As of December 31, 2017 and 2016, our Group did not have any significant contingent liabilities.

As of December 31, 2017 and 2016, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the year ended December 31, 2017 amounted to RMB240.7 million (2016: RMB196.4 million), representing a year-over-year increase of RMB44.3 million which was primarily due to our additional investments in associates and a joint venture solely in the form of ordinary shares. Our long-term investments were made in accordance with our general strategy of investing 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

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2017 and 2016.

Employee

As of December 31, 2017, we had approximately 1,600 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Shenzhen 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 fund and various employee social security plan 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.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

		Year ended December 31,	
		2017	2016
	Note	**RMB'000**	RMB'000
Revenues	5	**4,095,066**	2,556,866
Cost of revenues	6	**(2,019,626)**	(1,502,019)
Gross profit		**2,075,440**	1,054,847
Selling and marketing expenses	6	**(965,121)**	(734,176)
General and administrative expenses	6	**(710,266)**	(421,264)
Other gains, net	7	**110,723**	133,916
Operating profit		**510,776**	33,323
Finance costs	8	**(35,170)**	(27,092)
Finance income	9	**103,787**	3,939
Share of profit of investments accounted for using equity method	14	**66,337**	28,148
Profit before income tax		**645,730**	38,318
Income tax expense	10	**(83,038)**	(7,958)
Profit for the year		**562,692**	30,360
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		**(150,130)**	27,229
Total comprehensive income for the year		**412,562**	57,589
Profit attributable to:			
- Equity holders of the Company		**556,129**	36,683
- Non-controlling interests		**6,563**	(6,323)
		562,692	30,360

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Total comprehensive income attributable to:			
- Equity holders of the Company		**405,999**	63,912
- Non-controlling interests		**6,563**	(6,323)
		412,562	57,589
Earnings/(loss) per share (expressed in RMB per share)			
- Basic earnings per share	11(a)	**0.74**	0.05
- Diluted earnings/(loss) per share	11(b)	**0.72**	(0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017

	Note	As of December 31, **2017** **RMB'000**	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**36,050**	45,018
Intangible assets	13	**4,501,097**	4,681,540
Investments accounted for using the equity method	14	**342,314**	127,158
Investments in redeemable shares of associates	15	**267,000**	106,508
Derivative financial assets		**37,594**	7,500
Deferred income tax assets		**20,326**	28,429
Prepayments, deposits and other assets		**22,868**	20,340
Term deposits		**450,860**	—
Other investments		**25,128**	—
		5,703,237	5,016,493
Current assets			
Inventories	16	**222,486**	137,920
Trade and notes receivables	17	**759,983**	549,952
Prepayments, deposits and other assets		**295,812**	621,929
Other investments		**—**	368,271
Term deposits		**653,420**	—
Cash and cash equivalents		**7,502,430**	404,915
Assets of disposal group classified as held-for-sale		**—**	32,225
		9,434,131	2,115,212
Total assets		**15,137,368**	7,131,705

		As of December 31,	
		2017	2016
	Note	**RMB'000**	RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**569**	431
Shares held for RSU scheme		**(23)**	—
Share premium		**12,143,464**	5,311,029
Other reserves		**309,232**	210,878
Retained earnings/(accumulated losses)		**167,954**	(356,113)
		12,621,196	5,166,225
Non-controlling interests		**41,514**	42,057
Total equity		**12,662,710**	5,208,282
LIABILITIES			
Non-current liabilities			
Borrowings	18	**475,000**	—
Deferred income tax liabilities		**193,907**	220,993
Deferred revenue	20	**41,585**	43,964
		710,492	264,957
Current liabilities			
Put option liability		**—**	73,455
Borrowings		**—**	541,622
Trade payables	19	**656,953**	419,697
Other payables and accruals		**719,646**	377,007
Deferred revenue	20	**352,876**	232,421
Current income tax liabilities		**34,691**	10,834
Liabilities of disposal group classified as held-for-sale		**—**	3,430
		1,764,166	1,658,466
Total liabilities		**2,474,658**	1,923,423
Total equity and liabilities		**15,137,368**	7,131,705

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for RSU scheme	Other reserves	Retain earnings/ (accumulated losses)	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2017	**431**	**5,311,029**	**—**	**210,878**	**(356,113)**	**5,166,225**	**42,057**	**5,208,282**
Comprehensive income								
Profit for the year	—	—	—	—	556,129	556,129	6,563	562,692
Other comprehensive loss								
- Currency translation differences	—	—	—	(150,130)	—	(150,130)	—	(150,130)
Total comprehensive income for the year	**—**	**—**	**—**	**(150,130)**	**556,129**	**405,999**	**6,563**	**412,562**
Transaction with owners								
Share-based compensation expenses	—	—	—	137,446	—	137,446	—	137,446
Issuance of ordinary shares	111	7,038,676	—	—	—	7,038,787	—	7,038,787
Issuance of shares held for RSU scheme	27	—	(27)	—	—	—	—	—
Share issuance costs	—	(206,237)	—	—	—	(206,237)	—	(206,237)
Transfer of vested RSUs	—	(4)	4	—	—	—	—	—
Non-controlling interests arising from business combination	—	—	—	—	—	—	46	46
Disposal of equity interests in non-wholly owned subsidiaries	—	—	—	—	—	—	(7,152)	(7,152)
Expiry of put option liability	—	—	—	76,360	—	76,360	—	76,360
Profit appropriations to statutory reserves	—	—	—	32,062	(32,062)	—	—	—
Others	—	—	—	2,616	—	2,616	—	2,616
Total transactions with owners recognized directly in equity for the year	**138**	**6,832,435**	**(23)**	**248,484**	**(32,062)**	**7,048,972**	**(7,106)**	**7,041,866**
As of December 31, 2017	**569**	**12,143,464**	**(23)**	**309,232**	**167,954**	**12,621,196**	**41,514**	**12,662,710**

FOR THE YEAR ENDED DECEMBER 31, 2016

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2016	409	4,658,606	—	94,563	(378,110)	4,375,468	82,491	4,457,959
Comprehensive income								
Profit for the year	—	—	—	—	36,683	36,683	(6,323)	30,360
Other comprehensive income								
- Currency translation differences	—	—	—	27,229	—	27,229	—	27,229
Total comprehensive income for the year	—	—	—	27,229	36,683	63,912	(6,323)	57,589
Transaction with owners								
Share-based compensation expenses	—	—	—	78,023	—	78,023	—	78,023
Issuance of ordinary shares	22	652,423	—	—	—	652,445	—	652,445
Acquisition of non-controlling interests	—	—	—	(7,281)	—	(7,281)	(33,128)	(40,409)
Disposal of equity interests in non-wholly owned subsidiaries	—	—	—	—	—	—	(983)	(983)
Profit appropriations to statutory reserves	—	—	—	14,686	(14,686)	—	—	—
Others	—	—	—	3,658	—	3,658	—	3,658
Total transactions with owners recognized directly in equity for the year	22	652,423	—	89,086	(14,686)	726,845	(34,111)	692,734
As of December 31, 2016	431	5,311,029	—	210,878	(356,113)	5,166,225	42,057	5,208,282

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Net cash flows generated from operating activities	**885,710**	185,787
Net cash flows used in investing activities	**(432,835)**	(463,750)
Net cash flows provided by financing activities	**6,725,486**	360,250
Net increase in cash and cash equivalents	**7,178,361**	82,287
Cash and cash equivalents at the beginning of the year	**404,915**	331,090
Cash and cash equivalents of disposal group	**—**	(9,667)
Exchange (losses)/gains on cash and cash equivalents	**(80,846)**	1,205
Cash and cash equivalents at the end of the year	**7,502,430**	404,915

Notes to the Consolidated Financial Statements:

1 **General information**

The Company was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability under the Companies Law. 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 since November 8, 2017.

The Company is an investment holding company. The Group is principally engaged in the provision of reading services (either free or paid), copyright commercialization (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 realization 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.

The Financial Information is presented in RMB, unless otherwise stated.

2 **Basis of preparation**

The consolidated financial statements of the Group has been prepared in accordance with IFRS.

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

3 Accounting policies

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

Amendments to IAS 12	Income taxes
Amendments to IAS 7	Statement of cash flows
Amendment to IFRS 12	Disclosure of interest in other entities

The adoption of these amendments did not have any impact on the amounts recognized in prior years. Most of the amendments will also not affect the current or future years.

3.1 *New standards and interpretations not yet adopted*

Standards, amendments and interpretations that have been issued but not yet effective on January 1, 2017 and not been early adopted by the Group in preparing the consolidated financial statements, are as follows:

		Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IFRS 2	Share-based payment: Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IAS 28	Investments in associates and joint ventures	January 1, 2018
IFRS 16	Lease	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

4 **Segment information**

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker.

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.

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

As of December 31, 2017 and 2016, substantially all of the non-current assets of the Group other than certain long-term receivables and term deposits were located in the PRC.

5 **Revenues**

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Online reading		
- on our self-owned platform products	**1,873,557**	1,057,641
- on our self-operated channels on Tencent products	**1,081,944**	666,438
- on our third-party platforms	**465,077**	249,984
Intellectual property operations	**366,221**	247,408
Revenue from sales of physical books	**201,064**	224,033
Others	**107,203**	111,362
	4,095,066	2,556,866

6 **Expenses by nature**

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Content costs	**1,280,011**	838,975
Promotion and advertising expenses	**603,616**	491,421
Employee benefits expenses	**601,527**	437,410
Online reading platform distribution costs	**237,704**	152,971
Payment handling costs	**211,171**	101,220
Amortization of intangible assets	**154,036**	192,464
Cost of physical inventories sold	**105,185**	108,957
Professional service fees	**95,016**	35,564
Bandwidth and server custody fees	**59,217**	46,925
Animation production costs	**47,960**	28,149
Operating lease rentals	**45,526**	35,853
Travelling, entertainment and general office expenses	**44,461**	29,798
Provision for inventory obsolescence	**39,619**	42,046
Provision for doubtful receivables	**26,019**	1,264
Depreciation of property, plant and equipment	**22,239**	14,531
Game development outsourcing costs	**19,349**	11,019
Online game platform distribution costs	**16,746**	23,165
Auditors' remuneration		
- Audit services	**12,552**	3,792
- Non-audit services	**311**	—
Logistic expenses	**10,243**	8,855
Others	**62,505**	53,080
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**3,695,013**	2,657,459

7 Other gains, net

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Fair value gain of investments in redeemable shares of associates	**97,492**	32,500
Gain/(loss) on disposals of subsidiaries	**60,888**	(746)
Government subsidies	**32,584**	48,252
Fair value gain/(loss) of derivative financial assets	**30,094**	(1,200)
Foreign exchange gain/(loss), net	**24,640**	(19,622)
Gain on copyright infringements	**11,668**	7,128
Interest income on investments and loans receivable	**9,183**	14,861
Fair value gain on financial assets at fair value through profit or loss	**5,002**	11,594
Gain on redemption of convertible bonds	**—**	92,207
Impairment loss of intangible assets	**(156,254)**	(49,000)
Others, net	**(4,574)**	(2,058)
	110,723	133,916

8 Finance costs

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Interest expense	**29,843**	22,910
Accretion charges of put option liability	**2,905**	4,182
Guarantee expense	**2,422**	—
	35,170	27,092

9 Finance income

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Interest income on IPO subscription deposits	**55,575**	—
Interest income on bank deposits	**48,212**	3,939
	103,787	3,939

10 Income tax expense

(i) *Cayman Islands corporate income tax*

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

(ii) *Hong Kong profits tax*

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% 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.

(iii) *PRC corporate income tax ("CIT")*

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the year ended December 31, 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2017 and 2016 according to the applicable CIT Law. In addition, a subsidiary of the Group in the PRC was approved as Software Enterprise (being software enterprise qualified for a double-layered certification), and accordingly, it was subject to a reduced preferential CIT rate of 12.5% for the years ended December 31, 2017 and 2016 according to the applicable CIT Law.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Current tax	**102,021**	35,204
Deferred income tax	**(18,983)**	(27,246)
Income tax expense	**83,038**	7,958

11 Earnings/(loss) per share

(a) Basic earnings per share for the year ended December 31, 2017 and 2016 are 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.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**556,129**	36,683
Weighted average number of ordinary shares in issue (thousand)	**749,066**	695,443
Basic earnings per share (expressed in RMB per share)	**0.74**	0.05

(b) Diluted earnings or loss 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 year ended December 31, 2017, the Company has the dilutive potential ordinary shares of RSUs granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

For the year ended December 31, 2016, the Company has two categories of dilutive potential ordinary shares, the convertible bonds and RSUs granted to employees. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the redemption gain of convertible bonds less related income tax effect. RSUs are not included in the computation of diluted loss per share as the RSUs could not be exercised until the Company completes its IPO. As of December 31, 2016, such contingent event had not taken place.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Profit attributable to the equity holders of the Company	**556,129**	36,683
Less: Gain on redemption of convertible bonds	**—**	(92,207)
Net profit/(loss) used to determine diluted earnings/(loss) per share	**556,129**	(55,524)
Weighted average number of ordinary shares in issue (thousand)	**749,066**	695,443
Adjustments for convertible bonds (thousand)	**—**	11,729
Adjustments for share based compensation - RSUs (thousand)	**18,356**	—
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	**767,422**	707,172
Diluted earnings/(loss) per share (expressed in RMB per share)	**0.72**	(0.08)

12 **Dividends**

No dividends have been paid or declared by the Company during the year ended December 31, 2017 (2016: Nil).

13 Intangible assets

	Goodwill	Trademarks	Copyrights of contents	Writers' contracts	Distribution channel relationship	Customers relationship	Software	Domain names	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:									
At January 1, 2017	3,715,659	658,604	463,693	110,000	192,327	12,200	14,850	6,292	5,173,625
Additions	—	—	112,491	—	—	—	12,630	62	125,183
Business combinations	4,664	—	—	—	—	—	—	—	4,664
At December 31, 2017	3,720,323	658,604	576,184	110,000	192,327	12,200	27,480	6,354	5,303,472
Accumulated amortization:									
At January 1, 2017	—	(66,430)	(259,579)	(29,334)	(58,446)	(11,031)	(10,027)	(2,538)	(437,385)
Amortization	—	(34,501)	(90,039)	(14,667)	(8,945)	(574)	(4,680)	(630)	(154,036)
At December 31, 2017	—	(100,931)	(349,618)	(44,001)	(67,391)	(11,605)	(14,707)	(3,168)	(591,421)
Impairment:									
At January 1, 2017	—	(5,700)	—	—	(49,000)	—	—	—	(54,700)
Additions	—	(85,159)	—	—	(71,095)	—	—	—	(156,254)
At December 31, 2017	—	(90,859)	—	—	(120,095)	—	—	—	(210,954)
Net carrying amount:									
At January 1, 2017	3,715,659	586,474	204,114	80,666	84,881	1,169	4,823	3,754	4,681,540
At December 31, 2017	3,720,323	466,814	226,566	65,999	4,841	595	12,773	3,186	4,501,097
Cost:									
At January 1, 2016	3,726,435	658,604	351,067	110,000	192,327	12,200	14,326	6,292	5,071,251
Additions	—	—	112,626	—	—	—	605	—	113,231
Transfer to disposal group	(9,622)	—	—	—	—	—	(81)	—	(9,703)
Disposal of a subsidiary	(1,154)	—	—	—	—	—	—	—	(1,154)
At December 31, 2016	3,715,659	658,604	463,693	110,000	192,327	12,200	14,850	6,292	5,173,625
Accumulated amortization:									
At January 1, 2016	—	(34,430)	(147,179)	(14,667)	(29,573)	(10,457)	(7,249)	(1,367)	(244,922)
Amortization	—	(32,000)	(112,400)	(14,667)	(28,873)	(574)	(2,779)	(1,171)	(192,464)
Transfer to disposal group	—	—	—	—	—	—	1	—	1
At December 31, 2016	—	(66,430)	(259,579)	(29,334)	(58,446)	(11,031)	(10,027)	(2,538)	(437,385)
Impairment:									
At January 1, 2016	—	(5,700)	—	—	—	—	—	—	(5,700)
Additions	—	—	—	—	(49,000)	—	—	—	(49,000)
At December 31, 2016	—	(5,700)	—	—	(49,000)	—	—	—	(54,700)
Net carrying amount:									
At January 1, 2016	3,726,435	618,474	203,888	95,333	162,754	1,743	7,077	4,925	4,820,629
At December 31, 2016	3,715,659	586,474	204,114	80,666	84,881	1,169	4,823	3,754	4,681,540

During the year ended December 31, 2017, amortization expense of approximately RMB110,093,000 (2016: RMB128,071,000), RMB6,286,000 (2016: RMB26,218,000) and RMB37,657,000 (2016: RMB38,175,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

During the year ended December 31, 2017, impairment losses of RMB156,254,000 (2016: RMB49,000,000) were charged to "Other gains, net".

The goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary and the acquisition of the entities operating online literature business through the brand of "Chuangshi" ("Chuangshi") in 2014.

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2017 and 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

The goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group and the CGU to which the goodwill is allocated is the whole Group, being the only operating segment.

As of December 31, 2017, the recoverable amount of this Group was determined based on FVLCD, which was estimated by management with reference to the transaction price of the Company's listed shares in the Main Board of The Stock Exchange of Hong Kong Limited. Management considered the recoverable amount of the Group was higher than its carrying amount as of December 31, 2017.

Impairment review on the trademark of the Group has been conducted by the management as of December 31, 2017 according to IAS 36 "Impairment of assets". As a result, impairment loss of approximately RMB85,159,000 against the carrying amount of trademark was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2017.

Impairment review on the distribution channel relationship of the Group has been conducted by the management as at December 31, 2017 and December 31, 2016 according to IAS 36 "Impairment of assets". As of December 31, 2017, in light of the ongoing legal proceeding with one of the Group's telecom operator customers, the Group made a full impairment provision against the carrying amount of distribution channel relationship with that telecom operator customer. Impairment loss of RMB49,000,000 against the carrying amount of distribution channel relationship was recognized in the Group's consolidated statement of comprehensive income for the year ended December 31, 2016.

14 Investments accounted for using the equity method

	As of December 31, 2017 RMB'000	2016 RMB'000
Associates	**184,396**	72,934
Joint ventures	**157,918**	54,224
	342,314	127,158

(a) *Investments in associates*

	As of December 31, 2017 RMB'000	2016 RMB'000
At the beginning of the year	**72,934**	15,050
Additions	**107,742**	61,600
Impairment provision	**—**	(800)
Dividend from an associate	**(781)**	—
Disposals	**—**	(3,083)
Share of profit of the associates	**4,501**	167
At the end of the year	**184,396**	72,934

(b) *Investments in joint ventures*

	As of December 31, 2017 RMB'000	2016 RMB'000
At the beginning of the year	**54,224**	25,443
Additions	**41,858**	—
Share of profit of the joint ventures	**61,836**	28,781
At the end of the year	**157,918**	54,224

15 Investments in redeemable shares of associates

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**106,508**	74,008
Addition	**63,000**	—
Fair value gain	**97,492**	32,500
At the end of the year	**267,000**	106,508

In 2015, the Group made investment in some convertible redeemable preferred shares or redeemable ordinary shares with preference rights of a private company that engaged in provision of audio online publishing service. During the year ended December 31, 2017, the RMB63,000,000 addition of investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in Shanghai Foch Film Culture Investment Co., Ltd.

These aforementioned investments held by the Company contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group does not bifurcate the embedded derivatives from the host instruments and designates the entire hybrid contracts as financial assets at fair value through profit or loss, with the changes in the fair value recorded in "Other gains, net" in the consolidated statement of comprehensive income.

16 Inventories

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Raw materials	**15,757**	10,013
Work in progress	**27,861**	30,873
Inventories in warehouse	**71,316**	64,094
Inventories held with distributors on consignment	**93,702**	90,184
TV drama production costs under joint operations	**59,585**	—
Others	**33,153**	13,833
	301,374	208,997
Less: provision for inventory obsolescence	**(78,888)**	(71,077)
	222,486	137,920

During the year ended December 31, 2017, the cost of physical inventories recognized as expense and included in "cost of revenues" amounted to RMB144,804,000 (2016: RMB151,003,000); the cost of animation products (included in "Inventories-others") recognized as expense and included in "cost of revenues" amounted to RMB47,960,000 (2016: RMB28,149,000).

17 **Trade and notes receivables**

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

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Trade and notes receivables		
- Up to 3 months	**538,699**	505,943
- 3 to 6 months	**114,785**	13,511
- 6 months to 1 year	**85,809**	22,574
- 1 to 2 years	**17,196**	4,690
- Over 2 years	**3,494**	3,234
	759,983	549,952

As of December 31, 2017 and 2016, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days. As of December 31, 2017, only insignificant amounts of the remaining balances were past due. No impairment provision was considered necessary against these balances after management had performed assessment on their credit quality with reference to historical counterparty default rates.

18 **Borrowings**

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowings (Note a)	**475,000**	—
Current		
Other borrowings (Note b)	**—**	541,622
Total borrowings	**475,000**	541,622

Notes:

(a) In March 2017, one of the Group's subsidiaries 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 of December 31, 2017, the long-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.

(b) As of December 31, 2016, the Group's unsecured short-term borrowing balance of RMB200,000,000 was borrowed from Tencent Technology (Shenzhen) Company Limited through China Merchants Bank with an interest rate at 4.35% per annum. The borrowing was subsequently extended one year in March 2017 and was early repaid in September 2017.

As of December 31, 2016, the Group's unsecured short-term borrowing balance of US$6,000,000 (approximately equal to RMB41,622,000) was borrowed from Oriental Power Holdings Limited with an interest rate at 4.0% per annum. The borrowing was subsequently extended two months in June 2017 and was repaid in August 2017.

As of December 31, 2016, the Group's unsecured short-term borrowing balance of RMB300,000,000 was also borrowed from Tencent Technology (Shenzhen) Company Limited through China Merchants Bank with an interest rate at 4.8%. The borrowing was subsequently extended one year in June 2016 and was repaid in June 2017.

19 Trade payables

Ageing analysis of the trade payables based on recognition date at the end of each reporting period are as follows:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
- Up to 3 months	**506,021**	346,297
- 3 to 6 months	**65,314**	12,606
- 6 months to 1 year	**53,920**	26,168
- 1 to 2 years	**9,276**	8,108
- Over 2 years	**22,422**	26,518
	656,953	419,697

20 **Deferred revenue**

Deferred revenue mainly consists of 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2017 and 2016, and 2) the balance of deferred copyrights licensing income to be amortized over remaining sub-licensing period, and the portion to be recognized over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position.

21 **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
As of January 1, 2017	**39,500**
Vested	**(29,500)**
As of December 31, 2017	**10,000**
As of January 1, 2016	88,500
Vested	(49,000)
As of December 31, 2016	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 plan of the Group***

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

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

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

On January 17, 2017, the shareholders of the Company approved additional 15,409,091 new ordinary share to be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under 2014 Equity Incentive Plan shall be amounted to 40,409,091.

On January 17, 2017 and September 4, 2017, 5,807,500 and 7,380,000 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest and the completion of an IPO of the Company.

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2017	**11,131,500**
Granted	**13,187,500**
Forfeited	**(305,000)**
Vested	**(3,710,500)**
Outstanding balance as of December 31, 2017	**20,303,500**
As of January 1, 2016	14,910,000
Forfeited	(85,000)
Vested	(3,693,500)
Outstanding balance as of December 31, 2016	11,131,500

The fair value of each RSUs at the grant dates, namely January 17, 2017 and September 4, 2017, were determined by reference to the estimated fair value of the ordinary share of the Company.

USE OF PROCEEDS

The Shares of the Company were listed on the Main Board of the Stock Exchange on November 8, 2017 by way of global offering, raising total net proceeds of HK$7,235 million after deducting professional fees, underwriting commissions and other related listing expenses.

As stated in the Prospectus, the intended uses of the IPO Proceeds are set out as follows:

- approximately 30% of the IPO Proceeds (equivalent to approximately HK$2,170.5 million on net basis) will be used for expanding the Group's online reading business and sales and marketing activities;

- approximately 30% of the IPO Proceeds (equivalent to approximately HK$2,170.5 million on net basis) will be used for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles;

- approximately 30% of the IPO Proceeds (equivalent to approximately HK$2,170.5 million on net basis) will be used for funding the Group's potential investments in acquisitions and strategic alliances; and

- approximately 10% of the IPO Proceeds (equivalent to approximately HK$723.5 million on net basis) will be used for working capital and general corporate purposes.

Since the Listing Date and as of December 31, 2017, the Group has not utilized any IPO Proceeds. The Group will gradually utilize the IPO Proceeds in accordance with the intended purposes.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2017 (2016: Nil).

OTHER INFORMATION

Closure of the Register of Members

The Company will hold the AGM on May 18, 2018. The register of members of the Company will be closed from Tuesday, May 15, 2018 to Friday, May 18, 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, May 14, 2018.

Compliance with the Corporate Governance Code

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 to the Listing Rules as its own code of corporate governance.

No Board meeting or general meeting of the Company was held during the Relevant Period. As the Company was listed in November 2017, the Board did not have any matters to discuss during the Relevant Period which is less than two months. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

Code provision C3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Company's Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e)(i) of the CG Code during the Relevant Period. However, the Audit Committee did not hold any meetings with the Company's Auditor during the Relevant Period because the Audit Committee did not have any matters that need to be discussed with the Company's Auditor shortly after the Company's listing. The Audit Committee will fully comply with its terms of reference.

Save as disclosed above, the Company has complied with all applicable code provisions of the CG Code for the Relevant Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all directors of the Company, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Relevant Period.

Purchase, Sale or Redemption of Listed Securities

During the Relevant Period, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Audit Committee of the Company had, together with the Board and Auditor, reviewed the Group's audited consolidated financial statements for the year ended December 31, 2017. The Audit Committee of the Company had also reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to, among others, the auditing, risk management, internal control and financial reporting of the Group.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended December 31, 2017 have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Publication of the Annual Results and Annual Report on the Websites of the Stock Exchange and the Company

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.yuewen.com), and the Annual Report containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to take this opportunity to thank our dedicated staff and management team for their commitment, diligence and professionalism. The Board would also like to express our sincere gratitude to the continuing support of our shareholders and stakeholders. We will continue to enrich our platforms with quality products and services for the development of a healthy and prosperous internet ecosystem.

By Order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell
Chairman of the Board and Non-Executive Director

Hong Kong, March 19, 2018

As at the date of this announcement, the Board comprises Mr. Wu Wenhui and Mr. Liang Xiaodong as Executive Directors; Mr. James Gordon Mitchell, Mr. Lin Haifeng, Ms. Li Ming and Mr. Yang Xiang Dong as Non-Executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent Non-Executive Directors.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

DEFINITION

"AGM"	:	the forthcoming annual general meeting of the Company to be held on May 18, 2018;
"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	the external auditor of the Company;
"Board"	:	the board of Directors of the Company;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report;
"China" or the "PRC"	:	the People's Republic of China;
"Cloudary"	:	Cloudary Corporation (formerly known as Shanda Literature Corporation), an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 25, 2011, and our directly wholly-owned subsidiary;
"Company", "our Company", "the Company" or "China Literature"	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"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;
"IP"	:	intellectual property;
"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;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"Relevant Period"	:	the period from the Listing Date to December 31, 2017;
"Reporting Period"	:	the year ended December 31, 2017;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);
"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.