阅文集团

CHINA LITERATURE LIMITED

閱 文 集 團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

The board of directors of China Literature Limited is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2018. 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.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2018	2017	Year-over-year
	RMB' 000	*RMB' 000*	*(%)*
	(Unaudited)		
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	**483,481**	300,566	60.9

BUSINESS REVIEW AND OUTLOOK

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.

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.

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	**482,247**	302,842
Non-GAAP profit/(loss) attributable to:		
- Equity holders of the Company	**483,481**	300,566
- Non-controlling interests	**(1,234)**	2,276
	482,247	302,842

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	**%**	RMB' 000	%
	(Unaudited)			
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.

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.

- 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.

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	%	*RMB' 000*	%
	(Unaudited)			
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.

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.

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.

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 results announcement. 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.

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.

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.

Capital Expenditures and Long-Term Investments

Our 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.

Employees

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.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2018

		Six months ended June 30,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	
Revenues	6	**2,282,900**	1,924,198
Cost of revenues	7	**(1,086,401)**	(962,004)
Gross profit		**1,196,499**	962,194
Interest income		**84,901**	12,245
Other gains, net	8	**148,010**	50,674
Selling and marketing expenses	7	**(527,272)**	(467,399)
General and administrative expenses	7	**(334,773)**	(323,500)
Operating profit		**567,365**	234,214
Finance costs		**(12,105)**	(20,438)
Share of profit of associates and joint ventures	13	**50,984**	29,915
Profit before income tax		**606,244**	243,691
Income tax expense	9	**(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

		Six months ended June 30,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	
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	10(a)	**0.58**	0.29
- Diluted earnings per share	10(b)	**0.57**	0.29

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		**34,592**	36,050
Intangible assets	12	**4,467,482**	4,501,097
Investments in associates and joint ventures	13	**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		**15,500**	20,326
Financial assets at fair value through profit or loss	14	**293,000**	—
Prepayments, deposits and other assets		**22,593**	22,868
Term deposits		**—**	450,860
Other investments		**—**	25,128
		5,389,465	5,703,237
Current assets			
Inventories	15	**338,950**	222,486
Trade and notes receivables	16	**606,336**	759,983
Prepayments, deposits and other assets		**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	14	**37,823**	—
		10,227,635	9,434,131
Total assets		**15,617,100**	15,137,368

	Note	As at June 30, 2018 RMB'000 (Unaudited)	As at December 31, 2017 RMB'000
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**569**	569
Shares held for RSU scheme		**(19)**	(23)
Share premium		**12,143,460**	12,143,464
Other reserves		**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
LIABILITIES			
Non-current liabilities			
Borrowings	18	**—**	475,000
Deferred income tax liabilities		**217,278**	193,907
Deferred revenue		**40,431**	41,585
		257,709	710,492
Current liabilities			
Borrowings	18	**475,000**	—
Trade payables	19	**863,217**	656,953
Other payables and accruals	4.1	**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		**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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Attributable to equity holders of the Company							
	Share capital	Share premium	Shares held for RSU scheme	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	—	—	—	—	—	—	**(33,713)**	**(33,713)**
Transactions with								

FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Attributable to equity holders of the Company						
	Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

CONDENSED 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)	
Net cash generated from operating activities	**470,531**	325,263
Net cash generated from/(used in) investing activities	**493,246**	(22,939)
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

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.

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").

3 Accounting policies

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 applied the new rules of IFRS 9 "Financial Instruments" retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated. 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.

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

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

(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.

Debt instruments

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and 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 measured at the effective interest rate method.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Other gains, net". Interest income from these financial assets is included in finance income 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"): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the consolidated statement of compressive income within "Other gains, net" in the period in which it arises.

Equity instruments

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

Changes in the fair value of financial assets at fair value through profit or loss 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 from initial recognition of the receivables.

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.

4 **Changes in accounting policy and other key accounting policies**

As explained in Note 3.1 above, the Group has adopted IFRS 9 on 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 are not required to be restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

The accounting policies were changed to comply with IFRS 9. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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**	**DFA**	**FVPL**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*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

Liabilities

At January 1, 2018	Other payables and accruals	FLFVPL	Total
	RMB'000	*RMB'000*	*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.

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

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 the above financial assets are insignificant.

5 **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.

6 **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

7 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	**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	**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

8 Other gains, net

	Six months ended June 30,	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	
Gain on disposals of subsidiaries	**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

9 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.

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

10 **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	*RMB'000*
	(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 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 IPO. As at June 30, 2017, such contingent event had not taken place.

	Six months ended June 30, 2018	
	2018	2017
	RMB'000	*RMB'000*
	(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

11 Dividends

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

12 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***
(Unaudited)									
Six months ended June 30, 2018									
Opening net carrying 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 carrying 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	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*
Six months ended June 30, 2017									
Opening net carrying 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 carrying 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

13 **Investments in associates and joint ventures**

	As at June 30, 2018	As at December 31, 2017
	RMB'000	*RMB'000*
	(Unaudited)	
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	2017
	RMB'000	*RMB'000*
	(Unaudited)	
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

(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	**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

14 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.

	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 8)	**26,229**
At the end of the period	**330,823**

As at June 30, 2018, for the Group's investment in redeemable shares of an associate that engaged in provision of audio online publishing service, the Group used the market approach to determine the fair value of such financial asset at fair value through profit or loss, and key assumption used was the IPO probability of 45%.

15 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).

Self-produced TV drama under progress and TV drama production under joint operations are stated at the lower of cost or net realisable value. Cost of the TV and film products will be expensed in the consolidated statement of comprehensive income when the TV and film products are delivered to the publishers and right to receive payment is established.

16 **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

17 **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.

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.

18 **Borrowings**

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

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 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.

19 **Trade payables**

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

	As at June 30, 2018	As at December 31, 2017
	RMB'000	*RMB'000*
	(Unaudited)	
- 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

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.

DIVIDEND

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

OTHER INFORMATION

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 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

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.

Purchase, Sale or Redemption of Listed Securities

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

Subsequent Event after the Reporting Period

On the same date of this announcement, the Company has also 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 separate announcement of the Company dated August 13, 2018 for further details about the acquisition.

Audit Committee

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.

Publication of the Interim Results and 2018 Interim Report on the Websites of the Stock Exchange and the Company

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://ir.yuewen.com), and the 2018 Interim Report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all our staff and the management team for their unwavering teamwork, dedication and contribution. I would also like to thank all our Shareholders and stakeholders for their continued trust and support. Looking ahead, we will continue to develop our online literature ecosystem and unlock the potential of our IPs.

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

Hong Kong, August 13, 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

"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	PricewaterhouseCoopers, the external auditor of the Company;
"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 HKD7,235 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;
"Reporting Period"	:	the six months ended June 30, 2018;
"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 USD0.0001 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.