阅文集团

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, 2018

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, 2018. 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,		
	2018 **RMB' 000**	2017 RMB' 000	Year-over-year (%)
Revenues	**5,038,250**	4,095,066	23.0
Gross profit	**2,557,979**	2,075,440	23.2
Operating profit	**1,114,951**	614,563	81.4
Profit before income tax	**1,077,801**	645,730	66.9
Profit for the year	**912,398**	562,692	62.1
Profit attributable to equity holders of the Company	**910,636**	556,129	63.7
Non-GAAP profit attributable to equity holders of the Company	**900,490**	721,817	24.8

BUSINESS REVIEW AND OUTLOOK

Results Highlights

Our total revenues increased by 23.0% from RMB4,095.1 million in 2017 to RMB5,038.3 million in 2018. Gross profit over the same period increased by 23.2% from RMB2,075.4 million in 2017 to RMB2,558.0 million in 2018. Operating profit increased by 81.4% from RMB614.6 million in 2017 to RMB1,115.0 million in 2018. Profit attributable to equity holders of the Company rose 63.7% from RMB556.1 million in 2017 to RMB910.6 million in 2018.

Our gross margin increased from 50.7% in 2017 to 50.8% in 2018. Our operating margin increased from 15.0% in 2017 to 22.1% in 2018. Our net margin increased from 13.7% in 2017 to 18.1% in 2018.

Business Review

In 2018, we continued to execute our mission of introducing high-quality literary content to readers, and allowing authors to profit from their original writing. As a result of the effort we have put in to expand our ecosystem, we experienced a solid increase in the number of writers, literary works, and readers on our platform, as well as a rising presence among the top writers and top titles. By year end, our library featured 7.7 million writers and 11.2 million works of literature, including 10.7 million original literary works created by writers on our platform, 350 thousand works that are sourced from third-party platforms and 200 thousand e-books. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 44.3 billion individual characters were added to our platform during the period. According to Baidu's search ranking in December 2018, 25 out of the top 30 online literary works originated from our platform.

During the year, we added a sizable amount of new content from genres such as comic fiction, competitive sports, and science fiction, in addition to our collection of traditional fantasy and immortal hero-themed content. In particular, we promoted literature based on realistic and contemporary urban themes. In November, we organized the Third Realism Theme Online Original Literary Writing Competition, which saw 30% more entries compared with 2017. A number of these works received positive reviews by well-known third-party organizations. For example, *China Railway Man* (中國鐵路人) was endorsed and promoted by the China Railway Electrification Engineering Bureau while *The Strongest Special Force* (最強特種兵) won the 10th Guangdong Lu Xun Literature and Art Award (Literature).

Leveraging our data analytics and advanced algorithms, we further improved our personalized reader recommendation system during the year. We also strengthened the social features on our platform. For example, we now encourage users to build fan groups so that they can more actively reward the writers they like, subscribe to content, post comments and vote on their favorite authors and works of literature. In 2018, the total number of monthly virtual tickets submitted by paying users who voted on the most popular 100 works on our platform increased 35% year-over-year, reflecting higher user engagement and overall enthusiasm on our platform. Since the 2017 introduction of a comment function on paragraphs and chapters, users have increasingly been posting their own opinions and reviews. In late 2018, the highest number of comments for a single piece of literature exceeded 1.5 million. Furthermore, a growing number of movies, TV series and animated comics were adapted from content on our platform and released this year, so we organized a series of corresponding marketing events to fuel interest in the original titles and attract new users to our platform.

During the year, we strengthened our partnerships with major handset manufacturers, including OPPO, Huawei and VIVO, by pre-installing our apps on more of their handset models. We also continued to work with Tencent, our strategic shareholder, to distribute our content on a number of its platforms, including Mobile QQ, QQ Browser, Weixin Reading, Tencent News and Tencent Video. With the expanded distribution channels and ongoing refinements to our products and day-to-day operations, we were able to increase our average monthly active users ("MAUs") from 191.5 million in 2017 to 213.5 million in 2018. Average monthly paying users ("MPUs") also started to recover, rising to 10.8 million in 2018 from 10.6 million in the second half of 2017, though still down from the high of 11.5 million achieved in the first half of 2017.

In addition to our core online reading business, our intellectual property ("IP") operation business represents another cornerstone of our company as it allows us to further develop and monetize our deep library of content. We are pleased to report that we made substantial progress in 2018. During the period, we licensed over 130 online works of literature to various third parties that intend to adapt the content into other formats. In addition, several web and TV series in which we co-invested were broadcast, including *Pretty Man* (國民老公), *Our Glamorous Time* (你和我的傾城時光), *Martial Universe* (武動乾坤), *Battle Through the Heavens* (鬥破蒼穹), and *Ever Night* (將夜). On the animation side, new titles *Stellar Transformations* (星辰變) and *Cinderella Chef* (萌妻食神), as well as new seasons of *The King's Avatar* (全職高手), *Battle Through the Heavens* (鬥破蒼穹), *Pretty Man* (國民老公帶回家*), Fighter of the Destiny* (擇天記) and *Fulltime Master* (全職法師) were released.

As a part of our strategy to strengthen our position as a leading source of IP in the pan-entertainment market and expand further downstream, we acquired New Classics Media Holdings Limited ("New Classics Media", and previously known as Qiandao Lake Holdings Limited), a renowned TV series, web series and film studio in China, in October 2018. We believe this acquisition enables us to participate in a larger share of the entertainment market. We have started working with New Classics Media to select certain of our literary works for adaptation in-house. In addition, we are developing a systematic approach to uncover content that we believe has the potential to become successful in other formats. In particular, we are working to curate portfolios of IP licenses that target the experience and preferences of specific content partners. Furthermore, when we released video content produced by New Classics Media, we conducted joint marketing events on our reading platform to promote the related novels, including *Battle Through the Heavens* (鬥破蒼穹) and *Ruyi's Royal Love in the Palace* (如懿傳). Daily average sales of *Ruyi's Royal Love in the Palace* (如懿傳), for example, increased nearly five times on our platform during the release of the adapted TV series.

We have also made some early progress internationally. Since we launched WebNovel, our foreign language website and mobile platform, in 2017, we have enlarged the breadth and depth of the content and genres that we offer. As of December 31, 2018, our international library of content included over 13,000 titles created by local writers and 300 titles translated from Chinese, attracting over 20 million cumulative visitors.

Outlook

We believe China's upstream online literature market and downstream entertainment industries have enormous growth potential. Looking ahead, we will further develop our literary ecosystem by facilitating the creation of high-quality content and by enhancing our user operations and experience. We believe that the addition of New Classics Media accelerates our adaptation of high-quality IP across various business models, via licensing, co-investment, co-production and in-house production, facilitating the emergence of widely-popular IP that spans entertainment formats.

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2018 Compared to Year ended December 31, 2017

	Year ended December 31,	
	2018	2017
	RMB' 000	RMB' 000
Revenues	**5,038,250**	4,095,066
Cost of revenues	**(2,480,271)**	(2,019,626)
Gross profit	**2,557,979**	2,075,440
Interest income	**200,817**	103,787
Other gains, net	**338,910**	110,723
Selling and marketing expenses	**(1,293,107)**	(965,121)
General and administrative expenses	**(726,470)**	(684,247)
Net reversal of/(provision for) impairment losses on financial assets	**36,822**	(26,019)
Operating profit	**1,114,951**	614,563
Finance costs	**(148,489)**	(35,170)
Share of net profit of associates and joint ventures	**111,339**	66,337
Profit before income tax	**1,077,801**	645,730
Income tax expense	**(165,403)**	(83,038)
Profit for the year	**912,398**	562,692
Attributable to:		
Equity holders of the Company	**910,636**	556,129
Non-controlling interests	**1,762**	6,563
	912,398	562,692
Non-GAAP profit for the year	**902,535**	729,995
Attributable to:		
Equity holders of the Company	**900,490**	721,817
Non-controlling interests	**2,045**	8,178
	902,535	729,995

Revenues. Revenues increased by 23.0% to RMB5,038.3 million for the year ended December 31, 2018 on a year-over-year basis. The following table sets forth our revenues by segment for the years ended December 31, 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	RMB' 000	**%**	RMB' 000	%
Online business (1)				
On our self-owned platform products	**2,213,089**	**43.9**	1,943,021	47.4
On our self-operated channels on Tencent products	**951,774**	**18.9**	1,081,944	26.4
On third-party platforms	**663,063**	**13.2**	465,077	11.4
Subtotal	**3,827,926**	**76.0**	3,490,042	85.2
Intellectual property operations and others (1)				
Intellectual property operations	**1,003,032**	**19.9**	385,591	9.4
Others	**207,292**	**4.1**	219,433	5.4
Subtotal	**1,210,324**	**24.0**	605,024	14.8
Total revenues	**5,038,250**	**100.0**	4,095,066	100.0

Notes:

(1) Effective as of December 31, 2018, we changed our financial disclosure to report our business in two separate segments: (i) online business, which primarily reflects revenues from online paid reading, online advertising and distribution of third-party online games on our platform, and (ii) intellectual property operations and others, which primarily reflects the production and distribution of TV, web and animated series, films, licensing of IP rights for adaptation, operation of in-house online games and the sales of physical books. See "Segment Information" in this announcement.

— Revenues from online business increased by 9.7% to RMB3,827.9 million for the year ended December 31, 2018 on a year-over-year basis.

Revenues from online business on our self-owned platform products increased by 13.9% to RMB2,213.1 million in 2018, primarily driven by the increase in the number of paying users and their growing willingness to pay for premium online literature content.

Revenues from online business on our self-operated channels on Tencent products decreased by 12.0% to RMB951.8 million in 2018, primarily due to the decline in the number of paying users accessing our content through our self-operated channels on certain Tencent products.

Revenues from online business on third-party platforms increased by 42.6% to RMB663.1 million in 2018, primarily due to our enhanced cooperation with existing third-party distribution channels in 2018.

The following table summarizes our key operating data for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**213.5 million**	191.5 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	**10.8 million**	11.1 million
Paying Ratio [(1)]	**5.1%**	5.8%
Monthly average revenue per paying user ("ARPU") [(2)]	**RMB24.1**	RMB22.3

Notes:

(1) Paying ratio is calculated as average MPUs / average MAUs for a certain period.

(2) Monthly ARPU is calculated as online reading revenues on our self-owned platform products and self-operated channels on Tencent products divided by average MPUs during the period, then divided by the number of months during the period.

- Average MAUs on our self-owned platform products and self-operated channels increased by 11.5% year-over-year from 191.5 million in 2017 to 213.5 million in 2018, of which MAUs on our self-owned platform products and self-operated channels, respectively, increased from 90.9 million and 100.6 million in 2017 to 109.2 million and 104.3 million in 2018. The increases in average MAUs were mainly driven by our continual innovation to further improve the user experience and to sustain the expansion of our distribution channels.

- Average MPUs on our self-owned platform products and self-operated channels decreased by 2.7% year-over-year from 11.1 million in 2017 to 10.8 million in 2018. The decrease was mainly due to the decline in the number of paying users of our self-operated channels on Tencent products, and was partially offset by an increase in the number of paying users of our self-owned platform products. The decrease in MPUs of our self-operated channels on Tencent products started in the second half of 2017 when the user allocation strategy for certain Tencent products was changed and less online reading content was promoted. Our total average MPUs started to stabilize at 10.7 million in the first half of 2018 and rose to 10.8 million in the second half of 2018.

- As a result of the foregoing, the paying ratio decreased from 5.8% in 2017 to 5.1% in 2018.

- Monthly ARPU increased by 8.1% year-over-year from RMB22.3 in 2017 to RMB24.1 in 2018, primarily due to a steady increase in user engagement among paying users and their growing willingness to pay for premium online literature content.

— Revenues from intellectual property operations and others increased by 100.0% year-over-year to RMB1,210.3 million for the year ended December 31, 2018.

Revenues from intellectual property operations increased by 160.1% year-over-year to RMB1,003.0 million in 2018. The increase was primarily due to (i) the consummation of the acquisition of New Classics Media in October 2018, which contributed RMB274.6 million in revenues from the distribution of TV series, web series and films during the last two months in 2018, (ii) an increase in revenues from the licensing of copyrighted content for adaptation into TV, web and animated series, games, films, comics and other entertainment formats, reflecting the growing commercial value of our content as well as the rising demand from our content adaptation partners for our high-quality literary titles, and (iii) the increase in revenues from our co-invested web and television series, as well as the increase in revenues from animations in 2018.

Revenues from others, which mainly includes revenues from the sales of physical books, decreased by 5.5% year-over-year to RMB207.3 million in 2018 as we continued to adjust our physical book business and distribution channels in tandem with our business development strategy.

Cost of revenues. Cost of revenues increased by 22.8% year-over-year to RMB2,480.3 million in 2018, mainly due to greater content costs and production costs for TV, web and animated series and films. The content costs increased by 19.5% year-over-year to RMB1,529.3 million in 2018, primarily due to the increase in revenues from our online reading and IP licensing business. The production costs of TV, web and animated series and films increased significantly to RMB273.3 million in 2018 on a year-over-year basis, primarily due to (i) the consolidation of RMB153.0 million in production costs from New Classics Media's business since October 2018 and (ii) the increase in costs related to co-invested TV and web series as well as co-produced animated series in tandem with the revenue growth.

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,			
	2018		2017	
	RMB' 000	**% of revenues**	RMB' 000	% of revenues
Content costs	**1,529,313**	**30.4**	1,280,011	31.3
Production costs of TV, web and animated series and films	**273,276**	**5.4**	57,713	1.4
Online reading platform distribution costs	**196,165**	**3.9**	237,704	5.8
Cost of physical inventories recognized as expenses	**162,537**	**3.2**	144,804	3.5
Amortization of intangible assets	**111,849**	**2.2**	110,093	2.7
Others	**207,131**	**4.1**	189,301	4.6
Total cost of revenues	**2,480,271**	**49.2**	2,019,626	49.3

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 23.2% year-over-year to RMB2,558.0 million for the year ended December 31, 2018. Gross margin increased from 50.7% in 2017 to 50.8% in 2018.

Interest income. Interest income increased by 93.5% from RMB103.8 million for the year ended December 31, 2017 to RMB 200.8 million for the year ended December 31, 2018. The increase was mainly due to higher interest income from bank deposits.

Other gains, net. We recorded net other gains of RMB338.9 million in 2018, compared to RMB110.7 million in 2017. Our other gains in 2018 primarily consisted of (i) gains on the deemed disposal of a subsidiary of RMB127.9 million in connection with Shenzhen Lazy Online Technology Co., Ltd. in April 2018, (ii) a fair value gain of RMB108.9 million due to a change in the fair value of consideration liabilities related to the acquisition of New Classics Media, (iii) fair value gain on financial assets of RMB94.8 million and (iv) government subsidies of RMB44.8 million.

Selling and marketing expenses. Selling and marketing expenses increased by 34.0% year-over-year to RMB1,293.1 million for the year ended December 31, 2018. The increase was primarily due to (i) an increase in promotion and advertising expenses as our business expanded, (ii) an increase in payment handling costs, largely as a result of the increase in revenues from online business and because more payments were handled by channels with higher charge rates and (iii) the selling and marketing expenses from New Classics Media since the consolidation of its business in October 2018. As a result, selling and marketing expenses as a percentage of revenues increased to 25.7% for the year ended December 31, 2018 from 23.6% for the year ended December 31, 2017.

General and administrative expenses. General and administrative expenses increased by 6.2% year-over-year to RMB726.5 million for the year ended December 31, 2018, mainly driven by an increase in employee benefits expenses and the consolidation of New Classics Media's business in October 2018. As a percentage of revenues, general and administrative expenses decreased to 14.4% for the year ended December 31, 2018 from 16.7% for the year ended December 31, 2017, as the growth in our revenues outpaced the growth in our general and administrative expenses as a result of economies of scale.

Net reversal of/(provision for) impairment losses on financial assets. The impairment loss on financial assets was in relation to the provision for doubtful receivables. In 2018, we reversed a provision for doubtful receivables of RMB36.8 million on a net basis as a result of the collection of these receivables which were impaired in prior years.

Operating profit. As a result of the foregoing, we had an operating profit of RMB1,115.0 million for the year ended December 31, 2018, as compared with RMB614.6 million in the previous year. Operating margin increased from 15.0% in 2017 to 22.1% in 2018.

Finance costs. Finance costs increased by 322.2% year-over-year to RMB148.5 million for the year ended December 31, 2018. The increase was mainly due to higher interest expenses incurred and exchanges fluctuations in 2018.

Share of net profits of associates and joint ventures. Our share of net profits of associates and joint ventures increased by 67.8% from RMB66.3 million in 2017 to RMB111.3 million in 2018, principally because of greater profits generated from our investee companies during 2018.

Income tax expense. Income tax expense increased from RMB83.0 million in 2017 to RMB165.4 million in 2018, 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 by 63.7% from RMB556.1 million in 2017 to RMB910.6 million in 2018.

Segment Information:

Effective as of December 31, 2018, we changed our financial disclosure to report our business in two separate segments: (i) online business, which primarily reflects revenues from online paid reading, online advertising and distribution of third-party online games on our platform, and (ii) intellectual property operations and others, which primarily reflects the production and distribution of TV, web and animated series, films, licensing of IP rights for adaptation, operation of in-house online games and the sales of physical books. This change in reporting better reflects the significant growth in revenues contributed by both of these business lines in 2018. We retrospectively revised our prior year consolidated statements of income to conform to the current year's presentation. This change in segment reporting does not affect our consolidated balance sheets or consolidated statements of cash flows.

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the years ended December 31, 2018 and 2017:

	Year ended December 31, 2018		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Segment revenues	**3,827,926**	**1,210,324**	**5,038,250**
Cost of revenues	**1,700,760**	**779,511**	**2,480,271**
Gross profit	**2,127,166**	**430,813**	**2,557,979**
Gross margin	**55.6%**	**35.6%**	**50.8%**

	Year ended December 31, 2017		
	Online business	Intellectual property operations and others	Total
	RMB'000	RMB'000	RMB'000
Segment revenues	3,490,042	605,024	4,095,066
Cost of revenues	1,604,090	415,536	2,019,626
Gross profit	1,885,952	189,488	2,075,440
Gross margin	54.0%	31.3%	50.7%

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2018	2017
	RMB '000	RMB '000
EBITDA [1]	**739,275**	576,328
Adjusted EBITDA [2]	**944,460**	759,276
Adjusted EBITDA margin [3]	**18.7%**	18.5%
Interest expense	**48,510**	29,843
Net cash [4]	**6,358,344**	8,131,710
Capital expenditures [5]	**183,123**	133,317

Notes:

(1) EBITDA consists of operating profit for the year 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 as EBITDA for the year plus share-based compensation the expenditure related to acqusition in 2018 and one-off listing expenses in 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 and other payables bearing interests due to a related party.

(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 year presented:

	Year ended December 31,	
	2018	2017
	RMB '000	RMB '000
Operating profit	**1,114,951**	614,563
Adjustments:		
Interest income	**(200,817)**	(103,787)
Other gains, net	**(338,910)**	(110,723)
Depreciation of property, plant and equipment	**17,874**	22,239
Amortization of intangible assets	**146,177**	154,036
EBITDA	**739,275**	576,328
Adjustments:		
Share-based compensation	**152,227**	137,446
One-off listing expenses	**—**	45,502
Expenditure related to acquisition	**52,958**	—
Adjusted EBITDA	**944,460**	759,276

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 year, net margin, profit attributable to equity holders of the Company, basic EPS and diluted EPS as additional financial measures, have been presented in this annual results announcement for the convenience of readers. 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 these non-GAAP financial measures, when shown in conjunction with the corresponding IFRS measures, provides useful information to investors and management regarding the financial and business trends relating to the Company's financial condition and results of operations. Our management also believes that the non-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 years ended December 31, 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31, 2018				
		Adjustments			
	As reported	Share-based compensation	Net (gain) from investment and acquisition[1]	Amortization of intangible assets[2]	Non-GAAP
		(RMB' 000, unless specified)			
Operating profit	**1,114,951**	**152,227**	**(280,857)**	**89,183**	**1,075,504**
Profit for the year	**912,398**	**152,227**	**(228,977)**	**66,887**	**902,535**
Profit attributable to equity holders of the Company	**910,636**	**152,227**	**(228,977)**	**66,604**	**900,490**
EPS (RMB per share)					
-basic	**1.01**				**1.00**
-diluted	**1.00**				**0.99**
Operating margin	**22.1%**				**21.3%**
Net margin	**18.1%**				**17.9%**

	Year ended December 31, 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]	Interest (income) on IPO subscription deposit	Non-GAAP
	(RMB' 000, unless specified)							
Operating profit	614,563	137,446	(158,380)	63,117	45,502	156,254	(55,575)	802,927
Profit for the year	562,692	137,446	(124,598)	47,338	45,502	117,190	(55,575)	729,995
Profit attributable to equity holders of the Company	556,129	137,446	(124,598)	45,723	45,502	117,190	(55,575)	721,817
EPS (RMB per share)								
-basic	0.74							0.96
-diluted	0.72							0.94
Operating margin	15.0%							19.6%
Net margin	13.7%							17.8%

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. During the year ended December 31, 2018, this item includes fair value gains on financial assets at fair value, gains on deemed disposal of a subsidiary and net gain related to acquisition of New Classic Media of RMB54.5 million. During the year ended December 31, 2017, this item includes fair value gain of investments in redeemable shares of associates, dilution gains and gains from the disposal of investee companies.

(2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions, net of related deferred tax.

(3) Includes impairment provision for intangible assets.

Capital Structure

The 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 RMB27,834.6 million as of December 31, 2018, while our total liabilities changed from RMB2,474.7 million as of December 31, 2017 to RMB9,419.6 million as of December 31, 2018. Liabilities-to-assets ratio changed from 16.3% at the end of 2017 to 33.8% at the end of 2018.

As of December 31, 2018, the current ratio (the ratio of total current assets to total current liabilities) was 216.4% (2017: 534.8%).

As of December 31, 2018, our Group has pledged receivables of RMB145.0 million as security to a certain bank borrowing (2017: Nil).

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from related parties and bank loans. As of December 31, 2018, our Group had net cash of RMB6,358.3 million. The decrease in net cash in 2018 was mainly due to the cash paid-out at the completion of the New Classics Media acquisition and the business expansion. 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, 2018:

- Our gearing ratio was 13.4% (2017: 3.8%).

- Our total borrowings and other payables bearing interests due to a related party were RMB2,465.4 million, which were primarily denominated in RMB.

- Our unutilized banking facility under the aforementioned loan facility agreement was RMB131.4 million.

As of December 31, 2018 and 2017, our Group did not have any significant contingent liabilities.

As of December 31, 2018 and 2017, 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, 2018 totaled RMB417.9 million (2017: RMB240.7 million), representing a year-over-year increase of RMB177.2 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 business 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, 2018 and 2017.

Employee

As of December 31, 2018, we had approximately 1,700 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

Our success depends on our ability to attract, retain and motivate qualified personnel. As a part of our retention strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. As required under the PRC regulations, we participate in a housing fund and various employee social security plans that are organized by applicable local municipal and provincial governments. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and are based in part on the overall performance of our business. We have granted and planned to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

Acquisition of New Classics Media

On October 31, 2018, the Company acquired 100% of the equity interest in New Classics Media which is primarily engaged in the production and distribution of TV series, web series and films in China. New Classics Media, on a standalone basis, recorded RMB275.3 million in revenues and RMB67.9 million in net profit for the two months ended December 31, 2018.

Adjustment of earn out consideration under the Earn Out mechanism:

Reference is made to the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 (the "Circular") in respect of, among others, the proposed acquisition of 100% equity interest of New Classics Media. Capitalized terms in this sub-section shall have the same meaning as those defined in the Circular unless otherwise specified.

Pursuant to the Share Purchase Agreement, as downside protection for the Company, the Consideration payable to each of the Management Vendors is subject to a downward-only adjustment mechanism. If the actual Net Profits (defined as the consolidated net profit after tax and excludes the Non-GAAP items that were disclosed in the Circular) for an earn out year is less than the Reference Net Profit benchmark for that earn out year, the Earn Out Consideration payable by the Company to the relevant Management Vendor for that earn out year shall be the Instalment Amount for the same earn out year as reduced by such a deduction amount as set out in the Circular, and the Reference Net Profit benchmark was set at RMB500 million for the year ended December 31, 2018. The deduction amount shall be applied towards the deduction of Earn Out Consideration for that earn out year in the manner following the order of priority below: (a) first, the portion of Earn Out Consideration being settled by issue of Consideration Shares in accordance with the payment terms; and (b) thereafter, the portion of Earn Out Consideration being settled by cash in accordance with the payment terms.

The Board hereby announces that the actual Net Profit, as defined in the Circular and primarily excluded the impact from the government subsidies for the year ended December 31, 2018, was RMB324.3 million, which is less than the Reference Net Profit benchmark for the year ended December 31, 2018 by RMB175.7 million. Accordingly, the Earn Out Consideration for 2018 was deducted from RMB2,042.0 million to RMB1,187.8 million. Earn out Consideration was adjusted under the Earn Out Mechanism such that no Consideration Share would be issued and a total cash consideration of RMB1,187.8 million would be paid to the Management Vendors in accordance with the terms of the Share Purchase Agreement.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	**Year ended December 31, 2018 RMB'000**	2017 RMB'000
Revenues	4	**5,038,250**	4,095,066
Cost of revenues	5	**(2,480,271)**	(2,019,626)
Gross profit		**2,557,979**	2,075,440
Interest income	8	**200,817**	103,787
Other gains, net	6	**338,910**	110,723
Selling and marketing expenses	5	**(1,293,107)**	(965,121)
General and administrative expenses	5	**(726,470)**	(684,247)
Net reversal of/(provision for) impairment losses on financial assets		**36,822**	(26,019)
Operating profit		**1,114,951**	614,563
Finance costs	7	**(148,489)**	(35,170)
Share of net profit of associates and joint ventures	13	**111,339**	66,337
Profit before income tax		**1,077,801**	645,730
Income tax expense	9	**(165,403)**	(83,038)
Profit for the year		**912,398**	562,692
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of an associate		**(181)**	—
Currency translation differences		**430,076**	(150,130)
Total comprehensive income for the year		**1,342,293**	412,562
Profit attributable to:			
- Equity holders of the Company		**910,636**	556,129
- Non-controlling interests		**1,762**	6,563
		912,398	562,692

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Total comprehensive income attributable to:			
- Equity holders of the Company		**1,340,538**	405,999
- Non-controlling interests		**1,755**	6,563
		1,342,293	412,562
Earnings per share (expressed in RMB per share)			
- Basic earnings per share	10(a)	**1.01**	0.74
- Diluted earnings per share	10(b)	**1.00**	0.72

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**47,696**	36,050
Intangible assets	12	**12,141,157**	4,501,097
Investments in associates and joint ventures	13	**680,918**	342,314
Investments in redeemable shares of associates	14	**—**	267,000
Other investments		**—**	25,128
Derivative financial assets		**—**	37,594
Financial assets at fair value through profit or loss	14	**444,137**	—
Deferred income tax assets		**95,559**	20,326
Prepayments, deposits and other assets		**147,501**	22,868
Term deposits		**—**	450,860
		13,556,968	5,703,237
Current assets			
Inventories	15	**129,693**	222,486
Television series and film rights	16	**2,857,056**	—
Financial assets at fair value through profit or loss	14	**26,804**	—
Trade and notes receivables	17	**1,830,396**	759,983
Prepayments, deposits and other assets		**609,900**	295,812
Term deposits		**481,561**	653,420
Cash and cash equivalents		**8,342,228**	7,502,430
		14,277,638	9,434,131
Total assets		**27,834,606**	15,137,368

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**649**	569
Shares held for RSU scheme		**(21)**	(23)
Share premium		**16,456,555**	12,143,464
Other reserves		**898,150**	309,232
Retained earnings		**1,048,145**	167,954
		18,403,478	12,621,196
Non-controlling interests		**11,567**	41,514
Total equity		**18,415,045**	12,662,710
LIABILITIES			
Non-current liabilities			
Borrowings	18	**380,000**	475,000
Deferred income tax liabilities		**449,808**	193,907
Deferred revenue	4	**39,277**	41,585
Financial liabilities at fair value through profit or loss		**1,954,165**	—
		2,823,250	710,492
Current liabilities			
Borrowings	18	**1,385,445**	—
Trade payables	19	**1,131,067**	656,953
Other payables and accruals		**1,818,151**	657,725
Deferred revenue	4	**1,005,319**	414,797
Current income tax liabilities		**65,375**	34,691
Financial liabilities at fair value through profit or loss		**1,190,954**	—
		6,596,311	1,764,166
Total liabilities		**9,419,561**	2,474,658
Total equity and liabilities		**27,834,606**	15,137,368

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2018	569	12,143,464	(23)	309,232	167,954	12,621,196	41,514	12,662,710
Comprehensive income								
Profit for the year	—	—	—	—	910,636	910,636	1,762	912,398
Other comprehensive income								
- Share of other comprehensive loss of an associate	—	—	—	(181)	—	(181)	—	(181)
- Currency translation differences	—	—	—	430,083	—	430,083	(7)	430,076
Total comprehensive income for the year	—	—	—	429,902	910,636	1,340,538	1,755	1,342,293
Transaction with owners								
Share-based compensation expenses	—	—	—	152,227	—	152,227	—	152,227
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	80	4,375,333	—	—	—	4,375,413	—	4,375,413
Non-controlling interests arising on business combination	—	—	—	—	—	—	(1,770)	(1,770)
Transfer of vested RSUs, sale and repurchase of vested RSUs	—	(62,242)	2	—	—	(62,240)	—	(62,240)
Acquisition of non-controlling interests	—	—	—	(23,656)	—	(23,656)	3,781	(19,875)
Deemed disposal of a non-wholly owned subsidiary	—	—	—	—	—	—	(33,713)	(33,713)
Profit appropriations to statutory reserves	—	—	—	30,445	(30,445)	—	—	—
Transactions with owners in their capacity for the year	80	4,313,091	2	159,016	(30,445)	4,441,744	(31,702)	4,410,042
As of December 31, 2018	649	16,456,555	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045

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	Retained 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
Transactions with owners in their capacity 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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Net cash flows generated from operating activities	**917,678**	885,710
Net cash flows used in investing activities	**(176,628)**	(432,835)
Net cash flows (used in)/provided by financing activities	**(179,524)**	6,725,486
Net increase in cash and cash equivalents	**561,526**	7,178,361
Cash and cash equivalents at the beginning of the year	**7,502,430**	404,915
Exchange gains/(losses) on cash and cash equivalents	**278,272**	(80,846)
Cash and cash equivalents at the end of the year	**8,342,228**	7,502,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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 of Hong Kong Limited since November 8, 2017 (the "Listing").

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 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 People's Republic of China (the "PRC"). On October 31, 2018, the Group acquired 100% equity interest of New Classics Media Holdings Limited (or referred to as the "New Classics Media" and previously known as "Qiandao Lake Holdings Limited"), which is principally engaged in production and distribution of television series, web series and films in the PRC, which has further expanded the Group's intellectual property operation business, in particular for the production and distribution of film and TV programs.

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

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 *Basis of preparation*

2.1.1 *Compliance with IFRS*

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1.2 *Historical cost convention*

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

2.1.3 *New and amended standards adopted by the Group*

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendment)	Classification and Measurement of Share-based Payment Transactions
IFRSs (amendment)	Annual improvement 2014-2016 cycle
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. The adoption of these new and amended standards does not have significant impact on the consolidated financial statements of the Group, details of which are disclosed in Note 2.2 Changes in accounting policies.

2.1.4 *New standards and interpretations not yet adopted*

(a) *Nature of change*

IFRS 16 was issued in January 2016. It 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.

(b) *Impact*

The standard will affect primarily the accounting for the Group's operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and all non-current leases, including future operating lease commitments, must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from recognition. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. Operating expenses under otherwise identical circumstances will decrease, and depreciation, amortization and interest expense will increase. It is expected that certain portion of these lease commitments will be required to be recognised in the statement of financial position as right of use assets and lease liabilities.

The Group expects to the recognise right-of-use assets and lease liabilities for the noncancellable operating lease commitments which are more than one year. The Group expects no material impact to the consolidated statements of profit or loss.

(c) *Date of adoption by Group*

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

2.2 ***Changes in accounting policies***

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) *Impact on the financial statements*

As explained in Note 2.2(b) below, IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as of December 31, 2017, but are recognised in the opening consolidation statement of financial position on January 1, 2018.

The Group has also adopted IFRS 15 on January 1, 2018. 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 except for the reclassification of prepayments received from customers into deferred revenues (representing contract liabilities) under IFRS 15.

(b) *IFRS 9 Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings.

Classification and measurement

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

Assets

At January 1, 2018	RCPS RMB'000	DFA RMB'000	FVPL RMB'000	Total RMB'000
Opening balance — IAS 39	267,000	37,594	—	304,594
Reclassification of investments in redeemable shares of associates ("RCPS") to financial assets at fair value through profit or loss ("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

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 of January 1, 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments 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 of January 1, 2018. They do not meet the criteria to be classified as amortised cost in accordance with IFRS 9, 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.

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 receivable; and

- Deposits and other receivables.

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

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

(c) *IFRS 15 Revenue from Contracts with Customers*

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively. Since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated except for the reclassification of prepayments received from customers into deferred revenues (representing contract liabilities) under IFRS 15.

3 Segment information

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

As of December 31, 2017, the chief executive officers of the Group consider that the Group's operations are operated and managed as a single segment; accordingly no segment information is presented. As of December 31, 2018, with the developments of the Group's business and acquisition of New Classics Media, as a result of the evaluation, the chief executive officers of the Group have identified the following reportable segments and accordingly, the corresponding segment information for prior periods has also been restated.

- Online business (including online paid reading, online advertising and game publishing); and

- Intellectual property operations and others (including liscensing and distribution of film and television properties, copyrights licensing, sales of physical books, in-house online games operations, etc.).

As of December 31, 2018, the chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, other gains, net, net reversal of/(provision for) impairment loss on financial assets, finance costs, share of profit of investments accounted for using equity method and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the years ended December 31, 2018 and 2017. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

Other information, together with the segment information, provided to the chief operating decision-makers, is measured in a manner consistent with that applied in these consolidated financial statements. There were no segment assets and segment liabilities information provided to the chief operating decision-makers.

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

The segment information provided to the chief operating decision-makers for the reportable segments for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018		
	Online business RMB'000	**Intellectual property operations and others RMB'000**	**Total RMB'000**
Segment revenues	**3,827,926**	**1,210,324**	**5,038,250**
Cost of revenues	**1,700,760**	**779,511**	**2,480,271**
Gross profit	**2,127,166**	**430,813**	**2,557,979**

	Year ended December 31, 2017		
	Online business RMB'000	Intellectual property operations and others RMB'000	Total RMB'000
Segment revenues	3,490,042	605,024	4,095,066
Cost of revenues	1,604,090	415,536	2,019,626
Gross profit	1,885,952	189,488	2,075,440

The reconciliation of gross profit to profit before income tax of individual period for the years ended December 31, 2018 and 2017 is shown in the consolidated statement of comprehensive income.

There is no concentration risk as no revenue from a single external customer was more than 10% of the Group's total revenue for the years ended December 31, 2018 and 2017.

As of December 31, 2018 and 2017, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in P.R.China.

4 Revenues

4.1 *Disaggregation of revenue from contracts with customers*

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

	Online business			**Intellectual property operations and others**		
Year ended December 31, 2018	**On self-owned platform products**	**On self-operated channels on Tencent products**	**On third-party platforms**	**Intellectual property operations**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Timing of revenue recognition:						
- At a point in time	**1,958,865**	**881,275**	**663,063**	**871,615**	**206,585**	**4,581,403**
- Over time	**254,224**	**70,499**	**—**	**131,417**	**707**	**456,847**
	2,213,089	**951,774**	**663,063**	**1,003,032**	**207,292**	**5,038,250**

	Online business			Intellectual property operations and others		
Year ended December 31, 2017	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Timing of revenue recognition:						
- At a point in time	1,669,269	1,041,892	465,077	366,221	219,433	3,761,892
- Over time	273,752	40,052	—	19,370	—	333,174
	1,943,021	1,081,944	465,077	385,591	219,433	4,095,066

4.2 ***Liabilities related to contracts with customers***

The Group has recognised the following liabilities related to contracts with customers:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Deferred revenue		
Online business	**208,748**	300,615
Intellectual property operations and others	**835,848**	155,767
	1,044,596	456,382

(a) *Significant changes in deferred revenue*

Deferred revenue mainly comprises of contract liabilities in relation to 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, 2018 and 2017; 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; and 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, and advertising services have not been provided.

(b) *Revenue recognised in relation to deferred revenue*

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward deferred revenue:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue recognised that was included in the deferred revenue balance at the beginning of the year:		
Online business	**300,615**	193,560
Intellectual property operations and others	**110,994**	52,103
	411,609	245,663

5 Expenses by nature

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Content costs	**1,529,313**	1,280,011
Promotion and advertising expenses	**851,836**	603,616
Employee benefits expenses	**671,938**	601,527
Payment handling costs	**283,125**	211,171
Production costs of television series and film rights	**273,276**	57,713
Online reading platform distribution costs	**196,165**	237,704
Amortization of intangible assets	**146,177**	154,036
Cost of physical inventories sold	**98,764**	105,185
Professional service fees	**73,110**	95,016
Provision for inventory obsolescence	**63,773**	39,619
Operating lease rentals	**58,494**	45,526
Bandwidth and server custody fees	**55,287**	59,217
Travelling, entertainment and general office expenses	**45,132**	44,461
Online game platform distribution costs	**23,546**	16,746
Depreciation of property, plant and equipment	**17,874**	22,239
Auditors' remuneration		
- Audit services	**7,854**	12,552
- Non-audit services	**1,039**	311
Logistic expenses	**9,155**	10,243
Game development outsourcing costs	**8,765**	19,349
Others	**85,225**	52,752
	4,499,848	3,668,994

6 Other gains, net

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Gain on disposals of subsidiaries	**127,911**	60,888
Fair value gain on financial liabilities at fair value through profit or loss	**108,938**	—
Fair value gain on financial assets at fair value through profit or loss	**94,810**	5,002
Government subsidies	**44,793**	32,584
Gain on copyright infringements	**6,683**	11,668
Foreign exchange gain, net	**—**	24,640
Fair value gain of investments in redeemable shares of associates	**—**	97,492
Fair value gain of derivative financial assets	**—**	30,094
Interest income on investments and loans receivable	**—**	9,183
Impairment loss of intangible assets	**—**	(156,254)
Expenditure related to acquisition*	**(37,755)**	—
Others, net	**(6,470)**	(4,574)
	338,910	110,723

* Expenditure related to acquisition also included audit fee of approximately RMB5,076,000 that occurred in connection with the acquisition of New Classics Media.

7 Finance costs

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Foreign exchange loss, net	**96,557**	—
Interest expense	**48,510**	29,843
Guarantee expense	**3,422**	2,422
Accretion charges of put option liability	**—**	2,905
	148,489	35,170

8 **Interest income**

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Interest income on bank deposits	**200,817**	48,212
Interest income on IPO subscription deposits	**—**	55,575
	200,817	103,787

9 **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%. 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, 2018.

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, 2018 and 2017 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, 2018 and 2017 according to the applicable CIT Law.

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current tax	**147,566**	102,021
Deferred income tax	**17,837**	(18,983)
Income tax expense	**165,403**	83,038

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2018 (2017: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analyzed as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**1,077,801**	645,730
Share of profit of investments accounted for using equity method	**(111,339)**	(66,337)
Tax calculated at a tax rate of 25%	**241,616**	144,848
Effects of preferential tax rates applicable to different subsidiaries of the Group	**(78,338)**	(71,319)
Unrecognized deferred income tax assets	**17,920**	29,305
Non-deductible expenses less non-taxable income	**14,320**	11,804
Research and development tax credit	**(30,115)**	(31,600)
Income tax expense	**165,403**	83,038

10 Earnings per share

(a) Basic earnings per share for the years ended December 31, 2018 and 2017 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,	
	2018	2017
Net profit attributable to the equity holders of the Company (RMB'000)	**910,636**	556,129
Weighted average number of ordinary shares in issue (thousand)	**898,583**	749,066
Basic earnings per share (expressed in RMB per share)	**1.01**	0.74

(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 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.

	Year ended December 31,	
	2018	2017
Profit attributable to the equity holders of the Company (RMB'000)	**910,636**	556,129
Impact of a joint venture's and an associate's potential ordinary shares (RMB'000)	**(1,550)**	—
Net profit used to determine diluted earnings per share (RMB'000)	**909,086**	556,129
Weighted average number of ordinary shares in issue (thousand)	**898,583**	749,066
Adjustments for share-based compensation - RSUs (thousand)	**12,177**	18,356
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**910,760**	767,422
Diluted earnings per share (expressed in RMB per share)	**1.00**	0.72

11 Dividends

No dividends have been paid or declared by the Company during the year ended December 31, 2018 (2017: Nil)

12 Intangible assets

	Goodwill	Non-compete agreement	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*	*RMB'000*
At December 31, 2018										
Opening net book amount as of January 1, 2018	**3,720,323**	**—**	**466,814**	**226,566**	**65,999**	**4,841**	**595**	**12,773**	**3,186**	**4,501,097**
Additions	**—**	**—**	**—**	**144,492**	**—**	**—**	**—**	**9,031**	**—**	**153,523**
Deemed disposal of a subsidiary	**—**	**—**	**(25,000)**	**(143)**	**—**	**(327)**	**—**	**(15,518)**	**—**	**(40,988)**
Business combination	**6,933,002**	**24,400**	**716,300**	**—**	**—**	**—**	**—**	**—**	**—**	**7,673,702**
Amortization	**—**	**(1,017)**	**(25,221)**	**(97,664)**	**(14,666)**	**(3,714)**	**(574)**	**(2,671)**	**(650)**	**(146,177)**
Closing net book amount as of December 31, 2018	**10,653,325**	**23,383**	**1,132,893**	**273,251**	**51,333**	**800**	**21**	**3,615**	**2,536**	**12,141,157**

	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*
At December 31, 2017									
Opening net book amount as of January 1, 2017	3,715,659	586,474	204,114	80,666	84,881	1,169	4,823	3,754	4,681,540
Additions	—	—	112,491	—	—	—	12,630	62	125,183
Business combination	4,664	—	—	—	—	—	—	—	4,664
Amortization	—	(34,501)	(90,039)	(14,667)	(8,945)	(574)	(4,680)	(630)	(154,036)
Impairment	—	(85,159)	—	—	(71,095)	—	—	—	(156,254)
Closing net book amount as of December 31, 2017	3,720,323	466,814	226,566	65,999	4,841	595	12,773	3,186	4,501,097

During the year ended December 31, 2018, amortization expense of approximately RMB111,849,000 (2017: RMB110,093,000), RMB1,374,000 (2017: RMB6,286,000) and RMB32,954,000 (2017: RMB37,657,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

During the year ended December 31, 2018, impairment losses of nil (2017: RMB156,254,000) were charged to "other gains, net".

As of December 31, 2018, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary in 2014, the acquisition of the entities operating online literature business through the brand of "Chuangshi" ("Chuangshi") in 2014 and the acquisition of 100% equity interests in New Classics Media in 2018 (or referred to as "acquired TV and file business" hereafter).

Impairment tests for goodwill

As of December 31, 2018, goodwill is allocated to the Group's CGUs identified as follows:

	As of December 31, 2018 RMB'000
Online business	**3,720,323**
Acquired TV and film business	**6,933,002**
	10,653,325

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2018 and 2017 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.

As of December 31, 2018, the recoverable amount of goodwill was determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purpose of impairment reviews covering a ten-year period and a six-year period, respectively. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them:

2018	**Online paid reading**	**Acquired TV and film business**
Gross margin (%)	From 57.0% to 59.2%	From 45.5% to 46.0%
Annual growth rate (%)	From 9.5% to 19.5%	From 3.8% to 77.7%
Pre-tax discount rate (%)	20.1%	17.9%

The budgeted gross margins used in the goodwill impairment testing, were determined by the management based on past performance and its expectation for market development. The expected revenue growth rate and gross profit rates are following the business plan approved by the Company. Discount rates reflect market assessments of the time value and the specific risks relating to the industry. The management of the Group has not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amounts to exceed the recoverable amount.

As of December 31, 2017, 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 Group as a whole, being the only operating segment. As of December 31, 2017, the recoverable amount of the 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 trademarks with indefinite useful life arose from the acquisition of New Classics Media has been conducted by the management as of December 31, 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of the trademarks with indefinite life is determined based on the higher amount of the FVLCD and value-in-use calculations. Given there is no active market for the Group's trademarks with indefinite life, the recoverable amount of these trademarks is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a six-year period. As of December 31, 2018, key assumptions for the trademarks with indefinite life used for value-in-use calculations include average annual revenue growth rate of 3.8% to 77.7% and royalty saving rate of 2%. As of December 31, 2018, the discount rate used of 17.9% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry.

As there was indication that the Group's trademark has suffered an impairment loss, 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". Given there is no active market for the Group's intangible assets of trademark, the recoverable amount of the trademark is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. As of December 31, 2017, key assumptions for trademark used for value-in-use calculations include annual revenue growth rates ranged from 3% to 20% and deemed royalty rate of 6%. As of December 31, 2017, the discount rate used of 21% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry.

As there was indication that the Group's distribution channel relationship has suffered an impairment loss, impairment review on the distribution channel relationship of the Group has been conducted by the management as of December 31, 2017 according to IAS 36 "Impairment of assets". Given there is no active market for the Group's intangible assets of distribution channel relationship, the recoverable amount of the trademark is determined based on the value-in-use calculations. As of December 31, 2017, in light of the 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.

13 Investments in associates and joint ventures

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Investments in associates (a)	**307,794**	184,396
Investments in joint ventures (b)	**373,124**	157,918
	680,918	342,314

(a) ***Investments in associates***

	As of December 31, 2018 RMB'000	2017 RMB'000
At the beginning of the year	**184,396**	72,934
Additions	**123,776**	107,742
Dividend from an associate	**—**	(781)
Impairment provision	**(7,170)**	—
Share of net profit of associates	**8,443**	4,501
Share of other comprehensive loss of an associate	**(181)**	—
Currency translation differences	**(1,470)**	—
At the end of the year	**307,794**	184,396

(b) ***Investments in joint ventures***

	As of December 31, 2018 RMB'000	2017 RMB'000
At the beginning of the year	**157,918**	54,224
Additions	**163,000**	41,858
Dividend from a joint venture	**(45,205)**	—
Disposals	**(5,485)**	—
Share of net profit of joint ventures	**102,896**	61,836
At the end of the year	**373,124**	157,918

14 Financial assets at fair value through profit or loss

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

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

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

Financial assets mandatorily measured at FVPL include the following:

	As of December 31, 2018 RMB'000
Included in non-current assets:	
Investment in redeemable shares of associates (Note a)	**444,137**
Included in current assets:	
Derivative financial assets (Note b)	**26,804**
	470,941

Movement of FVPL is analysed as follows:

	As of December 31, 2018 RMB'000
At the beginning of the year	**—**
Adjustment on adoption of IFRS 9	**304,594**
Additions	**71,589**
Business combination	**8,992**
Changes in fair value	**94,810**
Currency translation differences	**(52)**
Disposals	**(8,992)**
At the end of the year	**470,941**

Notes:

(a) 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, and the investment was initially acquired in exchange of licensing certain copyrights of the Group to the investee for a certain period of time. Both of the investment and copyrights licensed are initially measured at fair value. 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 the Group's previous subsidiary Shanghai Foch Film Culture Investment Co., Ltd. ("Foch").

During the year ended December 31, 2018, the Group entered into a share subscription and capital injection agreement with an investee company, which is principally engaged in the animation productions, to subscribe for its redeemable ordinary shares at a total consideration of approximately RMB48,537,000, which represented approximately 30.34% equity interests of the investee on an outstanding and fully converted basis.

During the year ended December 31, 2018, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in South Korea, to subscribe for its preferred shares at a total consideration of approximately USD3,351,000 (equivalent to approximately RMB23,000,000), which represented approximately 4.42% equity interests of the investee on an outstanding and fully converted basis.

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 accounts for such investments as FVPL.

As of December 31, 2018, the Company used the market approach to determine the fair value of investment in redeemable shares of the associate that engaged in provision of audio online publishing service and key assumption used was the IPO probability of 40% as of December 31, 2018 (2017: 45%).

As of December 31, 2018, the Company used the market approach to determine the fair value of the investment in redeemable shares of Foch and key assumption used was the IPO probability of 40% as of December 31, 2018 (2017: 40%).

With respects to the Group's new investments in 2018, the management assessed and concluded that there has no significant changes in the fair value of those investments from the respective investment date to the end of reporting period.

(b) As of December 31, 2018, approximately RMB26,804,000 (2017: RMB37,594,000) derivative financial assets was recognized as the Group has entered into a forward foreign currency contract with Bank of Communication, Tokyo Branch, for the purpose of managing its exchange rate exposure, other than for hedge purpose. And the derivative financial assets is measured at fair value through profit or loss. During the year ended December 31, 2018, fair value loss amounting to approximately RMB10,790,000 (2017: fair value gain amounting to approximately RMB37,594,000) was recognized in the consolidated statement of comprehensive income.

(b) ***Amounts recognised in profit or loss***

During the year, the following gains were recognised in profit or loss:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fair value gain on financial assets at fair value through profit or loss		
- Fair value gain of investment in redeemable shares of associates	**105,600**	97,492
- Fair value (loss)/gain of derivative financial assets	**(10,790)**	30,094

15 Inventories

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Self-produced TV drama under progress and TV drama production under joint operations	**—**	59,585
Raw materials	**13,185**	15,757
Work in progress	**19,542**	27,861
Inventories in warehouse	**87,432**	71,316
Inventories held with distributors on consignment	**109,231**	93,702
Others	**9,335**	33,153
	238,725	301,374
Less: provision for inventory obsolescence	**(109,032)**	(78,888)
	129,693	222,486

During the year ended December 31, 2018, the cost of physical inventories, including provision for inventory of obsolescence, recognized as expense and included in "cost of revenues" amounted to approximately RMB162,537,000 (2017: RMB144,804,000).

16 Television series and film rights

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Television series and film rights		
- adaption rights and scripts	**709,491**	—
- under production	**1,416,202**	—
- completed	**731,363**	—
	2,857,056	—

	Adaption rights and scripts RMB'000	Under production RMB'000	Completed RMB'000	Total RMB'000
As of January 1, 2018	—	—	—	—
Additions (Note a)	104,935	426,340	149,757	681,032
Business combination	679,382	1,730,833	39,085	2,449,300
Transfer from under production to completed	—	(815,497)	815,497	—
Transfer from adaption rights and scripts to under production	(74,526)	74,526	—	—
Recognised in cost of revenue (Note c)	(300)	—	(272,976)	(273,276)
As of December 31, 2018 (Note b)	709,491	1,416,202	731,363	2,857,056

Notes:

(a) The additions also included the Group's self produced animation, self-produced TV drama under progress and TV drama production under joint operations that transferred from "inventory".

(b) The balance of television series and film rights under production represented costs associated with the production of television series and films including remuneration for the directors, casts and production crew, costumes, insurance, makeup and hairdressing, as well as rental of camera and lighting equipment and etc. Television series and film rights under production were transferred to television series and film rights completed upon completion of production.

(c) During the year ended December 31, 2018, impairment loss of approximately RMB300,000 was provided for the Group's adaption rights and scripts.

17 Trade and notes receivables

	As of December 31, 2018 RMB'000	2017 RMB'000
Trade receivables	**1,849,268**	780,097
Notes receivable	**200**	370
	1,849,468	780,467
Less: allowance for impairment of trade receivables	**(19,072)**	(20,484)
	1,830,396	759,983

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,	
	2018	2017
	RMB'000	RMB'000
Trade and notes receivables		
- Up to 3 months	**978,853**	538,699
- 3 to 6 months	**688,166**	114,785
- 6 months to 1 year	**95,986**	85,809
- 1 to 2 years	**29,608**	17,196
- Over 2 years	**37,783**	3,494
	1,830,396	759,983

18 **Borrowings**

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Non-current		
Unsecured		
Bank borrowings (Note a)	**200,000**	475,000
Other borrowings (Note b)	**180,000**	—
Total non-current borrowings	**380,000**	475,000
Current		
Unsecured		
Bank borrowings (Note a)	**1,269,550**	—
Secured		
Bank borrowings (Note c)	**115,895**	—
Total current borrowings	**1,385,445**	—
Total borrowings	**1,765,445**	475,000

Notes:

(a) In March 2017, one of the Group's subsidiaries Shanghai Yuewen Information Technology Co., Ltd. ("Shanghai Yuewen") entered into a two-year loan facility agreement with Bank of Communications, Shanghai Branch, where a loan facility up to RMB500,000,000 was made available to Shanghai Yuewen. As 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. As of December 31, 2018, this borrowing balance of RMB475,000,000 was reclassified to current liabilities as the borrowing will be repayable within 12 months after the end of the reporting period.

As of December 31, 2018, the Group's unsecured long-term bank borrowings consist of RMB66,000,000 fixed-rate borrowings bore interest rates of 5.225% per annum and approximately RMB300,000,000 variable-rate borrowings bore floating interest rates of People's Bank of China's loan prime rate plus 0.95% per annum. These unsecured long-term bank borrowings will be repayable from February 24, 2019 to April 17, 2020. These long-term bank borrowings of RMB366,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of the New Classics Media) (or referred to as "Mr. Cao") and/or a few subsidiaries of the Group. As of December 31, 2018, the borrowing balance of approximately RMB166,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after the end of the reporting period.

As of December 31, 2018, the Group's unsecured short-term bank borrowings consist of RMB139,000,000 fixed-rate borrowings bore interest rates of 5.22% per annum and RMB489,550,000 variable-rate borrowings bore interest rates ranging from 5.22% to 5.4375%. The short-term bank borrowings of RMB628,550,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

(b) As of December 31, 2018, the unsecured long-term other borrowing of RMB180,000,000 was borrowed from a third party trust company, bore a fixed interest rate of 9% per annum and will be repayable in February 2020. This other borrowing of RMB180,000,000 was guaranteed by Mr. Cao and a subsidiary of the Group.

(c) As of December 31, 2018, the Group's secured long-term bank borrowings consist of approximately RMB115,895,000 borrowings bore floating interest rates of People's Bank of China's loan prime rate plus 0.475% per annum. These secured long-term bank borrowings will be repayable from November 2, 2019 to December 27, 2019. These long-term bank borrowings were guaranteed by Mr. Cao and/or a subsidiary of the Group, and were secured by receivables of RMB145,000,000. As of December 31, 2018, the borrowing balance of approximately RMB115,895,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after the end of the reporting period.

As of December 31, 2018 and 2017, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**1,385,445**	—
Between 1 and 2 years	**380,000**	475,000
	1,765,445	475,000

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, **2018** RMB'000	As of December 31, 2017 RMB'000
- Up to 3 months	**705,318**	506,021
- 3 to 6 months	**259,006**	65,314
- 6 months to 1 year	**39,328**	53,920
- 1 to 2 years	**79,383**	9,276
- Over 2 years	**48,032**	22,422
	1,131,067	656,953

20 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 is as follows:

	Number of RSUs
As of January 1, 2018	**10,000**
Vested	**(10,000)**
As of December 31, 2018	**—**
As of January 1, 2017	39,500
Vested	(29,500)
As of December 31, 2017	10,000

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").

On December 23, 2014, 19,340,000 RSUs have been granted to certain directors and employees of the Group. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon its vesting.

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.

On January 17, 2017, the shareholders of the Company approved additional 15,409,901 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 shares.

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.

On October 29, 2018, 3,909,500 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.

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2018	**20,303,500**
Granted	**3,909,500**
Forfeited	**(539,000)**
Vested	**(6,197,000)**
Outstanding balance as of December 31, 2018	**17,477,000**
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

(c) ***Expected Retention Rate***

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of December 31, 2018, the Expected Retention Rate was assessed to be 100%.

(d) ***Shares held for RSU scheme***

The Company has set up two structured entities ("RSUs Scheme Trusts"), namely Link Apex Holdings Limited and Peak Income Group Limited, which are solely for the purpose of administering and holding the Company's shares for the RSU scheme. Pursuant to a resolution passed by the Board of Directors of the Company on October 10, 2017, the Company issued 40,409,091 ordinary shares to the RSU scheme Trusts at a par value of USD0.0001 each, being the ordinary shares underlying the Company's RSUs Scheme. In addition, the Company has entered into a trust deed with an independent trustee (the "RSU Trustee") on October 10, 2017, pursuant to which the RSU Trustee shall act as the administrator of the Company's RSUs Scheme.

The Company has the power to direct the relevant activities of the RSUs Scheme Trusts and it has the ability to use its power over the RSUs Scheme Trusts to affect its exposure to returns. Therefore, the assets and liabilities of the RSUs Scheme Trusts are included in the Group's consolidated statement of financial position and the ordinary shares held for the Company's RSU scheme were regarded as treasury shares and presented as a deduction in equity as "Shares held for RSU scheme".

21 Business combination

(a) *Acquisition of New Classics Media*

On October 31, 2018, the Group entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. The acquisition has significantly increased the Group's market share in the TV and film industry and complements the Group's existing divisions.

Pursuant to the share purchase agreement, the aggregate nominal consideration for the acquisition of New Classics Media is approximately RMB15,500,000,000 and will be subject to the earn-out mechanism that set out in the share purchase agreement. The consideration will be settled by a combination of cash and new shares based on the terms and subject to the conditions set forth in the share purchase agreement. "Monte Carlo Simulation Method" was used to in this exercise to measure the value of the contingent consideration. The future net profit of New Classics Media was simulated in numerous scenarios based on the assumptions of growth rate and volatility of net profit of New Classics Media. For each scenario, the consideration to be paid in the form of cash and shares would be determined in accordance with the earn-out mechanism that set out in the share purchase agreement. Such consideration was then discounted at a rate that reflects the associated risk of the payment to arrive the present value of consideration in a scenario. The value of contingent consideration was obtained by the average of the present value of considerations in these scenarios.

In addition, out of the total aforementioned nominal consideration of RMB15,500,000,000, RMB500,000,000 is a contingent payment. According to IFRS, a contingent payment arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Since the share purchase agreement specifically sets out that if any of a specific group of selling shareholders (as defined in the share purchase agreement) ceases or terminates his/her employment relationship(s) with the Group before March 31, 2023, they will give up their respective amount of the total RMB500,000,000 contingent payment. As such, RMB500,000,000 will not be included as the consideration for the acquisition, but a transaction that remunerates employees or former owners of the acquiree for future services, it will be considered as remuneration for post-combination services. For the period from November 1, 2018 to December 31, 2018, the post-combination service expense amounting to approximately RMB16,667,000 was charged to "general and administrative expenses" in the consolidated statement of comprehensive income.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	
Cash paid	1,531,508
Ordinary shares issued (Note i)	4,375,413
Contingent consideration (Note ii)	3,301,627
Total purchase consideration	9,208,548

Notes:

(i) The fair value of the 116,137,007 shares issued as part of the consideration paid for New Classics Media was based on the published share price on October 31, 2018 of HK$42.35 per share.

(ii) As of October 31, 2018, financial liabilities at fair value through profit or loss of approximately RMB3,301,627,000 in relation to aforementioned contingent consideration were recognised in the consolidated statement of financial position, which was based on the valuation performed by an independent external valuation firm that engaged by the Group. As of December 31, 2018, the remeasurement of the fair value of contingent consideration payable was also based on the valuation performed by the independent external valuation firm, which took into account the updated assumptions at the end of the reporting period. For the period from November 1, 2018 to December 31, 2018, fair value gain of approximately RMB108,938,000 was charged to "other gains, net" and the currency translation difference of approximately RMB48,070,000 was charged to "other comprehensive income" in the consolidated statement of comprehensive income.

The goodwill of approximately RMB6,933,002,000 arising from the acquisition is attributable to the acquired market shares and business cooperations to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	October 31, 2018
	RMB'000
Consideration	9,208,548
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	2,889
Intangible assets (Note i)	740,700
Television series and film rights (Note ii)	2,449,300
Investments in a joint venture	6,624
Deferred income tax assets	61,701
Prepayments, deposits and other assets	528,430
Trade and notes receivables	1,526,740
Cash and cash equivalents	1,005,582
Financial assets at fair value through profit or loss	8,992
Trade payables	(277,252)
Other payables and accruals	(1,479,116)
Borrowings	(1,363,072)
Deferred revenue	(693,677)
Current income tax liabilities	(13,202)
Deferred income tax liabilities	(230,863)
Total identifiable net assets	2,273,776
Non-controlling interests	1,770
Goodwill	6,933,002
	9,208,548

Notes:

(i) The identified intangible assets for the acquisition primarily consists of trademark of approximately RMB716,300,000 and non-compete agreement of approximately RMB24,400,000. They are initially recognised and measured at fair value. The recognition of trademark as part of the acquisition arose mainly from the cost savings by owing the trademark rather than licensing it. The fair value of trademark was developed through the application of the valuation technique which has taken into account the estimated royalty income contributed by the trademark. The recognition of non-compete agreement as part of the Acquisition arouse mainly from the avoidance of potential damage caused by the competition. The fair value of the non-compete agreement was developed through the application of the valuation technique which has taken into account of the difference in projected cash flows New Classics Media in the scenarios with and without the non-compete agreement in place and the estimated probability of competition.

(ii) Television series and film rights represent the total amount for adaption rights and scripts, television series and film rights under production and television series and film rights completed of approximately RMB2,449,300,000. The recognition of television series and film rights as part of the proposed acquisition arose mainly from the revaluation of television series and film rights which are expected to bring economic benefit to the Target Group in the ordinary course of business. The fair value of television series and Film rights was developed through the application of the valuation technique which has taken into account the estimated selling price of television series and films right adjusted by relevant costs and a profit commensurate with the amount of investment in the assets and the degree of risk.

(iii) The acquired business contributed revenues of approximately RMB275,286,000 and net profit of approximately RMB23,236,000 to the group for the period from October 31 to December 31, 2018. If the acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and profit for the year ended December 31, 2018 would have been approximately RMB6,634,121,000 and RMB1,187,653,000, respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary, and
- the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets and television series and film rights had applied from January 1, 2018, together with the consequential tax effects.

(b) *Purchase consideration — cash outflow*

	RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	1,531,508
Less: Balance of cash acquired	(1,013,031)
Net outflow of cash — investing activities	518,477

Acquisition-related costs of RMB37,755,000 that were not directly attributable to the issue of shares are included in "other gains, net" in profit or loss and in operating cash flows in the consolidated statement of cash flows.

USE OF PROCEEDS

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 December 31, 2018, the Group had:

- used approximately RMB345.4 million for expanding the Group's online reading business and sales and marketing activities;
- used approximately RMB200.9 million for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles; and
- used approximately RMB1,734.9 million for funding our potential investments, acquisitions and strategic alliances.

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.

MATERIAL INVESTMENT, ACQUISITION AND DISPOSAL OF ASSETS

On October 31, 2018, the Company has completed the acquisition of 100% equity interest of New Classics Media Holdings Limited. Please refer to the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018 for further details.

Save as disclosed above, the Company did not have any material investment, acquisitions and disposals of the Group during the year ended December 31, 2018.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2018 (2017: Nil).

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 year ended December 31, 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 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 year ended December 31, 2018.

Purchase, Sale or Redemption of Listed Securities

For the year ended December 31, 2018, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Company's listed securities.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held on Friday, May 17, 2019. The notice of the AGM will be published and despatched to the Shareholders in due course.

Closure of the Register of Members

For determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, May 14, 2019 to Friday, May 17, 2019, both days inclusive, 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 Friday, May 10, 2019.

Audit Committee

The Audit Committee had, together with the Board and the Auditor, reviewed the Group's audited consolidated financial statements for the year ended December 31, 2018. The Audit Committee 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 Announcement

The figures in respect of the announcement of the Group's results for the year ended December 31, 2018 have been audited and 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

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, March 18, 2019

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 17, 2019;
"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;
"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, 2018;
"Reporting Period"	:	the year ended December 31, 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 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, one of our controlling shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700); and
"USD"	:	the lawful currency of the United States.