CHINA LITERATURE LIMITED
閱 文 集 團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2019

The board of directors of China Literature Limited is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2019. The Audit Committee, together with management and the Auditor, has reviewed the unaudited interim results of the Group for the six months ended June 30, 2019.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended June 30,		
	2019	2018	Year-over-year
	RMB' 000	*RMB' 000*	*(%)*
	(Unaudited)	*(Unaudited)*	
Revenues	**2,970,951**	2,282,900	30.1
Gross profit	**1,621,150**	1,196,499	35.5
Operating profit	**527,722**	603,866	(12.6)
Profit before income tax	**516,740**	606,244	(14.8)
Profit for the period	**393,220**	504,313	(22.0)
Profit attributable to equity holders of the Company	**392,722**	505,810	(22.4)
Non-GAAP profit attributable to equity holders of the Company	**389,999**	483,481	(19.3)

BUSINESS REVIEW AND OUTLOOK

Company Strategic Highlights

We achieved several major milestones during the first half of 2019 as we sought to reinforce our leading position in China's online literature space. Highlights included the launch of our free-to-read business model through Tencent's *Mobile QQ* and *QQ Browser* Apps, the release of our free reading App *Feidu*, and our integration of New Classics Media Holdings Limited ("NCM"). While the video industry in China is undergoing adjustments which impact NCM's TV station and online video partners, and thus NCM's own ability to release content, we believe the consolidation of NCM will create synergies across our business by strengthening our in-house drama production capabilities and by allowing us to adapt our massive intellectual property ("IP") library to other formats. Our IP-centric monetization model has now included online reading, TV and film production, animation co-production and online game operations. We have many projects in the pipeline that will adapt our IP into various formats.

We believe these initiatives will significantly strengthen the foundations of our ecosystem, enhance our IP development, and support our long-term sustainable growth.

Online Business

Strengthened Leadership Position

We strengthened our content offering and expanded the number of high-quality literary works and writers on our platform. As of June 30, 2019, our library featured 7.8 million writers and 11.7 million works of literature, including 11.1 million original literary works written by writers on our platform, 380,000 works sourced from third-party platforms, and 230,000 e-books. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, around 20 billion individual Chinese characters were added to our platform over the past six months. According to Baidu's search ranking in June 2019, 17 out of the top 20 online literary works were created on our platform.

In addition to diversifying the number of genres available on our platform, we have also been promoting short-form content, which typically is a quarter to one-third of the length of our long-form content. Whether in short- or long-form, content quality is of the utmost importance, and we believe our short-form content maintains the level of quality for which we are recognized. Traffic for our short-form content increased significantly during the first half of 2019 and we expect it to continue growing as we bring new writers onboard and develop new genres.

We continued to incubate literary works based on realistic and contemporary urban themes in order to meet growing interest from market. These literary works and their writers are increasingly being recognized for their creativity. During the first half of 2019, 25 of our literary works received recommendations and honors from the State Administration of Press, Publication, Radio, Film and Television, and from the China Writers Association at the national and regional levels. In April 2019, our novel *A Love Letter to Mr. Mole (寫給鼴鼠先生的情書)* was included in the 2018 China Great Book List, the most authoritative book recommendation list in China and the first time for online literary work to be included in the list. In May 2019, our novel *Airline of the Country (大國航空)* was selected by the China Writers Association for its celebration of the 70th anniversary of the founding of the PRC.

Our success also relies on the operational efficiency of the services we aggregate on our China Literature platform, which are evolving into a healthy ecosystem. For example, we operate curation systems where we attract, train, serve and motivate writers to produce high-quality works; we use algorithms to deliver personalized recommendations to each user accessing our platform; we utilize data-driven marketing systems that support the promotion of our top-ranked literary works across the internet; and we possess an active user community that promotes direct linkage between a successful writer and his/her fans. Together these services supported our platform health during the first half of 2019. For example, a hit novel *The Sacred Ruins (聖墟)* has attained over 10 million fans on our platform, and 13 works have each collected over one million user comments, compared to 2 works that had done so during 2018.

Introduction of Free-to-Read Model

To broaden our appeal and cater to price-sensitive users, we introduced a free-to-read model during the first half of 2019, allowing our users to read content for free while we monetize through advertising. The free-to-read model complements our current subscription model by serving the needs of users who are price-sensitive but tolerate advertisements on their reading page. We began distributing free content on Tencent's *Mobile QQ* and *QQ Browser* Apps in the first quarter of 2019, and through our independent free-to-read App *Feidu* in the second quarter of 2019.

We believe we enjoy several competitive advantages in this emerging market. For example, most of our competitors rely on sourcing content from third parties, which limits the scale and quality of their content offerings, whereas we source free-to-read content from both selected works from our in-house library and our external partners' libraries. In addition, we operate sophisticated recommendation algorithms to operate content in an effective way.

We believe the launch of the free-to-read model will also enhance the total return-on-investment of our content library, and generate higher life-time value from our users. Under the subscription model, viewership for titles in our library is unevenly distributed; many titles are not able to generate meaningful revenues shortly after their debuts. Putting these titles back on the shelf under our free-to-read channel gives them another opportunity for exposure and collect revenues from advertisers. This is why we believe the free-to-read model is an important initiative and will improve monetization over existing IP.

In short, the roll out of our free-to-read model alongside our existing paid content model allows us to offer a greater breadth of content and serve a broader range of users. In long term, it may also provide us with the opportunity to convert a subset of free users into paying customers as they increasingly engage with our platform online.

IP Operations

Integration of NCM

Since its acquisition in October 2018, NCM has been working with us to select our literary works for adaptation in-house. NCM is also reviewing our IP portfolio to identify content suitable for licensing to downstream partners. With its extensive experience in drama series and films production, NCM seeks to elevate the value of IP by identifying not only the most popular literature, but also less-popular literature which it believes will be suited for licensing and adaptation. At the same time, NCM is continuing to develop original content outside the China Literature platform.

During the first half of 2019, NCM demonstrated its ongoing ability to develop top-tier content. *Memories of Peking (芝麻胡同)* was aired and ranked the first in terms of viewership during its specific broadcast time slot on Beijing TV and the fourth on Shanghai Dragon TV. Two dramas in the pipeline, *The Best Partner (精英律師)* and *Last Romance (流金歲月)*, were included in the 2018-2022 Top Hundred Key TV Series, a recommendation list published by the State Administration of Press, Publication, Radio, Film and Television. In addition, a drama series, *Awakening of Insects (驚蟄)*, was one of the titles recommended for airing on TV to celebrate the 70th anniversary of the founding of the PRC.

Looking ahead, NCM will continue to focus on producing high-quality drama series and films, which should ultimately amplify the franchise value of the China Literature platform, and create significant benefits for our entire content ecosystem. We believe a hit show should enhance the loyalty of our users, generate returns for our business partners, and reflect China's broader development trends.

Proprietary IP Operation

We have made progress in licensing our IP for adaptation into other formats such as film, TV series, animations and mobile games. Around 70 literary works were licensed to third-party partners for adaptation during the first half of 2019. Our IP-centric monetization model allows us to prolong the lifecycle of our IP and monetize it efficiently across various different formats. For example, *The King's Avatar (全職高手)*, was originally released as a novel on our platform in 2011. We released an animated version of the story in 2017 which gained wide-spread popularity, prompting us to add more episodes in 2018. In July 2019, a live-action web series was launched and received over 300 million views within three days. In August 2019, we will release an animated movie based on the IP. In addition, we have licensed game adaptation rights of this IP to Tencent, which is currently developing an online game.

We believe our IP is in high demand regardless of the format and there are many ahead to adapt our IP portfolio and release more of its latent value. Looking forward, we will seek to increase our participation in adapting our IP content to other formats, which we aspire to ultimately represent a significant portion of the entertainment market in China.

International Expansion

WebNovel, our foreign language website and mobile platform, generated around 18 million visits during the first half of 2019, and offered more than 400 original literary works translated from Chinese and nearly 50,000 original literary works in local languages.

During the first half of 2019, we formed a strategic partnership with Transsion Technology Limited, a leading smart device manufacturer and mobile internet service provider in overseas emerging markets, to expand into Africa's huge untapped online literature market. We also entered into a strategic partnership with Singapore Telecommunications Limited, a leading communications technology group in Asia, to jointly develop online literary services and content platforms in Southeast Asia.

Outlook

We will continue to focus on developing a healthy ecosystem by building a more engaging platform, attracting more users and writers. We will explore innovative monetization models and deepen our involvement along the value chain, to unlock the value of our IP and generate long-term sustainable growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

	Six months ended June 30,	
	2019	2018
	RMB' 000	*RMB' 000*
	(Unaudited)	*(Unaudited)*
Revenues	**2,970,951**	2,282,900
Cost of revenues	**(1,349,801)**	(1,086,401)
Gross profit	**1,621,150**	1,196,499
Interest income	**85,589**	84,901
Other gains, net	**269,572**	184,511
Selling and marketing expenses	**(976,720)**	(527,272)
General and administrative expenses	**(473,400)**	(333,947)
Net reversal of/(provision for) impairment losses on financial assets	**1,531**	(826)
Operating profit	**527,722**	603,866
Finance costs	**(93,464)**	(48,606)
Share of profit of associates and joint ventures	**82,482**	50,984
Profit before income tax	**516,740**	606,244
Income tax expense	**(123,520)**	(101,931)
Profit for the period	**393,220**	504,313
Attributable to:		
Equity holders of the Company	**392,722**	505,810
Non-controlling interests	**498**	(1,497)
	393,220	504,313
Non-GAAP profit for the period	**390,517**	482,247
Attributable to:		
Equity holders of the Company	**389,999**	483,481
Non-controlling interests	**518**	(1,234)
	390,517	482,247

Revenues. Revenues increased by 30.1% to RMB2,971.0 million for the six months ended June 30, 2019 on a year-over-year basis. The following table sets forth our revenues by segment for the six months ended June 30, 2019 and 2018:

	Six months ended June 30,			
	2019		2018	
	RMB' 000	*%*	*RMB' 000*	*%*
	(Unaudited)		*(Unaudited)*	
Online business [(1)]				
On our self-owned platform products	**985,341**	**33.2**	1,096,501	48.0
On our self-operated channels on Tencent products	**431,371**	**14.5**	499,678	21.9
On third-party platforms	**245,769**	**8.3**	283,030	12.4
Subtotal	**1,662,481**	**56.0**	1,879,209	82.3
Intellectual property operations and others [(1)]				
Intellectual property operations	**1,215,030**	**40.9**	319,472	14.0
Others	**93,440**	**3.1**	84,219	3.7
Subtotal	**1,308,470**	**44.0**	403,691	17.7
Total revenues	**2,970,951**	**100.0**	2,282,900	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 self-operated online games and the sales of physical books. See "Segment Information" in this announcement.

— Revenues from online business decreased by 11.5% to RMB1,662.5 million for the six months ended June 30, 2019 on a year-over-year basis, accounting for 56.0% of total revenues.

Revenues from online business on our self-owned platform products decreased by 10.1% year-over-year to RMB985.3 million for the six months ended June 30, 2019, mainly due to a decline in paying users for our self-owned platform products as we strengthened the review of our paid content during the first half of 2019.

Revenues from online business on our self-operated channels on Tencent products decreased by 13.7% year-over-year to RMB431.4 million for the six months ended June 30, 2019, primarily due to the continued decline in paid reading revenues from our self-operated channels on certain Tencent products, partially offset by the contribution of online advertising revenues generated from the free-to-read model that we introduced in the first half of 2019 on these Tencent products.

Revenues from online business on third-party platforms decreased by 13.2% year-over-year to RMB245.8 million for the six months ended June 30, 2019. The decrease was primarily due to the suspension of cooperation with certain third-party platforms during the first half of 2019.

The following table summarizes our key operating data for the six months ended June 30, 2019 and 2018:

	Six months ended June 30,	
	2019	2018
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**217.1 million**	213.5 million
Average MPUs on our self-owned platform products and self-operated channels on Tencent products (average of MPUs for each calendar month)	**9.7 million**	10.7 million
Paying Ratio [(1)]	**4.5%**	5.0%
Monthly average revenue per paying user ("ARPU") [(2)]	**RMB22.5**	RMB24.4

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 1.7% year-over-year from 213.5 million to 217.1 million for the six months ended June 30, 2019, among which (i) MAUs on our self-owned platform products increased 8.7% year-over-year from 106.3 million to 115.6 million, driven by user growth from our existing paid reading products, as well as the initial user contribution from our free-to-read product *Feidu* which was launched during the second quarter of 2019; and (ii) MAUs on our self-operated channels on Tencent products decreased 5.3% year-over-year from 107.2 million to 101.5 million, primarily due to the user allocation strategy for certain Tencent products was changed and less online paid reading content was promoted starting from the second half of 2017. The impact was partially offset by the introduction of free-to-read content attracting new users during the first half of 2019, and MAUs on our self-operated channels remained stable on a six-month basis compared to 101.4 million in the second half of 2018.

- Average MPUs on our self-owned platform products and self-operated channels decreased by 9.3% year-over-year from 10.7 million to 9.7 million for the six months ended June 30, 2019, mainly due to (i) the strengthened review of paid content, resulting in a decrease in paying users for our self-owned platform products in the first half of 2019; and (ii) the continued decline of paying users from our self-operated channels on certain Tencent products.

- As a result of the foregoing, the paying ratio decreased from 5.0% for the six months ended June 30, 2018 to 4.5% for the six months ended June 30, 2019.

- Monthly ARPU decreased from RMB24.4 for the six months ended June 30, 2018 to RMB22.5 for the six months ended June 30, 2019, primarily due to the continued ARPU decline from our self-operated channels on Tencent products during the first half of 2019.

— Revenues from intellectual property operations and others increased by 224.1% year-over-year to RMB1,308.5 million for the six months ended June 30, 2019, accounting for 44.0% of total revenues.

Revenues from intellectual property operations increased by 280.3% year-over-year to RMB1,215.0 million for the six months ended June 30, 2019. The increase was primarily due to (i) the contribution of RMB659.6 million in intellectual property operations revenues generated by NCM during the first half of 2019 as we acquired its business in October 2018, and (ii) an increase in revenues from

IP-related self-operated online games, co-produced animations and co-invested TV and web series, reflecting our increasing participation in the IP adaptation businesses.

Revenues from others, which mainly include revenues from the sales of physical books, were RMB93.4 million for the six months ended June 30, 2019, compared to RMB84.2 million for the same period last year.

Cost of revenues. Cost of revenues increased by 24.2% year-over-year to RMB1,349.8 million for the six months ended June 30, 2019, mainly due to greater production costs of TV, web and animated series and films, which increased from RMB23.3 million for the six months ended June 30, 2018 to RMB359.7 million for the six months ended June 30, 2019 along with the rapid increase in revenues, as well as an increase in distribution costs related to self-operated online games as revenue increased. These increases were partially offset by a decrease in content costs in accordance with the decline of revenues generated by literary titles with revenue-sharing arrangements.

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

	Six months ended June 30,			
	2019		2018	
	RMB' 000	***%***	*RMB' 000*	*%*
	(Unaudited)	***of revenues***	*(Unaudited)*	*of revenues*
Content costs	**556,089**	**18.7**	744,408	32.6
Production costs of TV, web and animated series and films	**359,691**	**12.1**	23,347	1.0
Platform distribution costs	**197,064**	**6.6**	107,389	4.7
Cost of inventories recognized as expenses	**83,725**	**2.8**	67,850	3.0
Amortization of intangible assets	**65,063**	**2.2**	56,807	2.5
Others	**88,169**	**3.0**	86,600	3.8
Total cost of revenues	**1,349,801**	**45.4**	1,086,401	47.6

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 35.5% year-over-year to RMB1,621.2 million for the six months ended June 30, 2019. Gross margin increased from 52.4% for the six months ended June 30, 2018 to 54.6% for the six months ended June 30, 2019.

Interest income. Interest income increased by 0.8% from RMB84.9 million for the six months ended June 30, 2018 to RMB85.6 million for the six months ended June 30, 2019, reflecting higher interest income from bank deposits.

Other gains, net. We recorded net other gains of RMB269.6 million for the six months ended June 30, 2019, as compared to RMB184.5 million for the six months ended June 30, 2018. Our other gains for the six months ended June 30, 2019 mainly consisted of (i) a fair value gain of RMB194.1 million due to a change in the fair value of consideration liabilities related to the acquisition of NCM, and (ii) government subsidies of RMB50.2 million.

Selling and marketing expenses. Selling and marketing expenses increased by 85.2% year-over-year to RMB976.7 million for the six months ended June 30, 2019. The increase was primarily due to (i) greater marketing expenses to promote free-to-read content and our self-operated mobile game, and (ii) the consolidation of selling and marketing expenses for films and drama series produced by NCM since we acquired its business in October 2018. As a percentage of revenues, our selling and marketing expenses increased to 32.9% for the six months ended June 30, 2019 from 23.1% for the six months ended June 30, 2018.

General and administrative expenses. General and administrative expenses increased by 41.8% year-over-year to RMB473.4 million for the six months ended June 30, 2019, primarily due to (i) an increase in employee benefit expenses resulting from increased headcount and salary for our employees, (ii) an increase in outsourcing expenses for developing online games, and (iii) the consolidation of NCM's business since October 2018. As a percentage of revenues, our general and administrative expenses increased to 15.9% for the six months ended June 30, 2019 from 14.6% for the six months ended June 30, 2018.

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. For the six months ended June 30, 2019, we reversed a provision for doubtful receivables of RMB1.5 million on a net basis as a result of the collection of these receivables which were impaired in prior periods.

Operating profit. As a result of the foregoing, we had an operating profit of RMB527.7 million for the six months ended June 30, 2019, as compared to RMB603.9 million for the six months ended June 30, 2018. Operating margin was 17.8% for the six months ended June 30, 2019, as compared to 26.5% for the six months ended June 30, 2018.

Finance costs. Finance costs were RMB93.5 million for the six months ended June 30, 2019, as compared to RMB48.6 million for the six months ended June 30, 2018. The increase was mainly due to higher interest expenses incurred for the six months ended June 30, 2019.

Share of profit of associates and joint ventures. Our share of profit of associates and joint ventures increased by 61.8% from RMB51.0 million for the six months ended June 30, 2018 to RMB82.5 million for the six months ended June 30, 2019, primarily because of greater profits generated from our investee companies.

Income tax expense. Income tax expense increased from RMB101.9 million for the six months ended June 30, 2018 to RMB123.5 million for the six months ended June 30, 2019, mainly due to a higher portion of profits were generated from subsidiaries with higher income tax rates in the first half of 2019.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company was RMB392.7 million for the six months ended June 30, 2019, as compared to RMB505.8 million for the six months ended June 30, 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 self-operated online games and the sales of physical books. This change in reporting better reflects our business development. We retrospectively revised our consolidated statement of comprehensive income in the prior corresponding period to conform to the current period's presentation. This change in segment reporting does not affect our consolidated statement of financial position or consolidated statement 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 six months ended June 30, 2019 and 2018:

	Six months ended June 30, 2019		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
	(Unaudited)	***(Unaudited)***	***(Unaudited)***
Segment revenues	**1,662,481**	**1,308,470**	**2,970,951**
Cost of revenues	**703,329**	**646,472**	**1,349,801**
Gross profit	**959,152**	**661,998**	**1,621,150**
Gross margin	**57.7%**	**50.6%**	**54.6%**

	Six months ended June 30, 2018		
	Online business	Intellectual property operations and others	Total
	RMB'000	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
Segment revenues	1,879,209	403,691	2,282,900
Cost of revenues	802,119	284,282	1,086,401
Gross profit	1,077,090	119,409	1,196,499
Gross margin	57.3%	29.6%	52.4%

OTHER FINANCIAL INFORMATION

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*
EBITDA [(1)]	**266,830**	415,406
Adjusted EBITDA [(2)]	**427,871**	491,152
Adjusted EBITDA margin [(3)]	**14.4%**	21.5%
Interest expenses	**96,293**	10,359
Net cash [(4)]	**4,892,250**	8,491,122
Capital expenditures [(5)]	**94,549**	85,768

Notes:

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

(2) Adjusted EBITDA is calculated as EBITDA for the period plus share-based compensation expense and expenditures related to acquisitions.

(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 periods presented:

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating profit	**527,722**	603,866
Adjustments:		
Interest income	**(85,589)**	(84,901)
Other gains, net	**(269,572)**	(184,511)
Depreciation of property, plant and equipment	**10,968**	7,255
Amortization of intangible assets	**83,301**	73,697
EBITDA	**266,830**	415,406
Adjustments:		
Share-based compensation	**71,639**	75,746
Expenditure related to acquisition	**89,402**	—
Adjusted EBITDA	**427,871**	491,152

Non-GAAP Financial Measure:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-GAAP financial measures, namely non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS as additional financial measures, have been presented in this interim 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. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

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 six months ended June 30, 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	Unaudited six months ended June 30, 2019					
		Adjustments				
	As reported	**Share-based compensation**	**Net (gain) from investment and acquisition** [(1)]	**Amortization of intangible assets** [(2)]	**Tax effects**	**Non-GAAP**
			(RMB'000, unless specified)			
Operating profit	**527,722**	**71,639**	**(145,979)**	**63,738**	**—**	**517,120**
Profit for the period	**393,220**	**71,639**	**(125,125)**	**63,738**	**(12,955)**	**390,517**
Profit attributable to equity holders of the Company	**392,722**	**71,639**	**(125,125)**	**63,718**	**(12,955)**	**389,999**
EPS (RMB per share)						
– basic	**0.39**					**0.39**
– diluted	**0.39**					**0.39**
Operating margin	**17.8%**					**17.4%**
Net margin	**13.2%**					**13.1%**

	Unaudited six months ended June 30, 2018					
		Adjustments				
	As reported	Share-based compensation	Net (gain) from investment and acquisition [(1)]	Amortization of intangible assets [(2)]	Tax effects	Non-GAAP
			(RMB'000, unless specified)			
Operating profit	603,866	75,746	(153,911)	26,430	—	552,131
Profit for the period	504,313	75,746	(153,911)	26,430	29,669	482,247
Profit attributable to equity holders of the Company	505,810	75,746	(153,911)	26,167	29,669	483,481
EPS (RMB per share)						
– basic	0.58					0.55
– diluted	0.57					0.54
Operating margin	26.5%					24.2%
Net margin	22.1%					21.1%

Notes:

(1) During the six months ended June 30, 2019, this item includes fair value gains on financial assets at fair value through profit or loss, and net gain related to acquisition of NCM of RMB144.1 million. During the six months ended June 30, 2018, this item includes fair value gain on financial assets at fair value through profit or loss and gain on deemed disposal of a subsidiary.

(2) Represents amortization of intangible assets and TV series and film rights resulting from acquisitions.

Capital Structure

The Group continued to maintain a healthy and sound financial position. Our total assets were RMB26,232.9 million as of June 30, 2019, as compared to RMB27,834.6 million as of December 31, 2018, and our total liabilities changed from RMB9,419.6 million as of December 31, 2018 to RMB7,441.9 million as of June 30, 2019. Liabilities-to-assets ratio changed from 33.8% as of December 31, 2018 to 28.4% as of June 30, 2019.

As of June 30, 2019, the current ratio (the ratio of total current assets to total current liabilities) was 196.4%, compared to 216.4% as of December 31, 2018.

As of June 30, 2019, our Group has pledged receivables of RMB145.0 million as security to a certain bank borrowing, compared to RMB145.0 million as of December 31, 2018.

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 June 30, 2019, our Group had net cash of RMB4,892.3 million, compared to RMB6,358.3 million as of December 31, 2018. The decrease in net cash for the six months ended June 30, 2019 was mainly due to the earn out cash consideration paid for the acquisition of NCM based on its 2018 financial performance and the cash paid for our business expansion. Our bank balances and term deposits are primarily held in USD, RMB and HKD. Our Group monitors capital on the basis of the gearing ratio, which is calculated as debt divided by total equity. As of June 30, 2019:

- Our gearing ratio was 8.6%, compared to 13.4% as of December 31, 2018.
- Our total borrowings and other payables bearing interests due to a related party were RMB1,619.1 million, which were primarily denominated in RMB.
- Our unutilized banking facility was RMB1,537.9 million.

As of June 30, 2019, our Group did not have any significant contingent liabilities.

As of June 30, 2019, 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 six months ended June 30, 2019 amounted to RMB305.6 million, compared to RMB123.0 million for the six months ended June 30, 2018, representing a year-over-year increase of RMB182.6 million which was primarily driven by our investments in associates and joint ventures. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main 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 as of June 30, 2019.

Employee

As of June 30, 2019, we had nearly 1,900 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.

New Classics Media

On October 31, 2018, the Company acquired 100% of the equity interest in NCM which is primarily engaged in the production and distribution of TV series, web series and films in China. NCM, on a standalone basis, recorded RMB664.3 million in revenues and RMB95.5 million in net profit for the six months ended June 30, 2019.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019

		Six months ended June 30,	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	*(Unaudited)*
Revenues	6	**2,970,951**	2,282,900
Cost of revenues	7	**(1,349,801)**	(1,086,401)
Gross profit		**1,621,150**	1,196,499
Interest income		**85,589**	84,901
Other gains, net	8	**269,572**	184,511
Selling and marketing expenses	7	**(976,720)**	(527,272)
General and administrative expenses	7	**(473,400)**	(333,947)
Net reversal of/(provision for) impairment losses on financial assets		**1,531**	(826)
Operating profit		**527,722**	603,866
Finance costs		**(93,464)**	(48,606)
Share of profit of associates and joint ventures	13	**82,482**	50,984
Profit before income tax		**516,740**	606,244
Income tax expense	9	**(123,520)**	(101,931)
Profit for the period		**393,220**	504,313
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of an associate		**(415)**	–
Currency translation differences		**(18,144)**	90,122
Total comprehensive income for the period		**374,661**	594,435

	Note	Six months ended June 30, 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit/(loss) attributable to:			
– Equity holders of the Company		**392,722**	505,810
– Non-controlling interests		**498**	(1,497)
		393,220	504,313
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		**374,168**	595,939
– Non-controlling interests		**493**	(1,504)
		374,661	594,435
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	10(a)	**0.39**	0.58
– Diluted earnings per share	10(b)	**0.39**	0.57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019

	Note	**As of June 30, 2019** *RMB'000* *(Unaudited)*	As of December 31, 2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**41,188**	47,696
Right-of-use assets	4.1	**124,983**	–
Intangible assets	12	**12,147,751**	12,141,157
Investments in associates and joint ventures	13	**869,196**	680,918
Financial assets at fair value through profit or loss	14	**435,000**	444,137
Deferred income tax assets		**129,614**	95,559
Prepayments, deposits and other assets		**158,330**	147,501
		13,906,062	13,556,968
Current assets			
Inventories	15	**875,486**	129,693
Television series and film rights	16	**2,501,944**	2,857,056
Financial assets at fair value through profit or loss	14	**–**	26,804
Trade and notes receivables	17	**1,617,010**	1,830,396
Prepayments, deposits and other assets		**821,049**	609,900
Term deposits		**838,969**	481,561
Cash and cash equivalents		**5,672,376**	8,342,228
		12,326,834	14,277,638
Total assets		**26,232,896**	27,834,606

	Note	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**649**	649
Treasury shares		**(6,254)**	–
Shares held for RSU scheme		**(19)**	(21)
Share premium		**16,405,025**	16,456,555
Other reserves		**950,641**	898,150
Retained earnings		**1,440,867**	1,048,145
		18,790,909	18,403,478
Non-controlling interests		**74**	11,567
Total equity		**18,790,983**	18,415,045
LIABILITIES			
Non-current liabilities			
Borrowings	19	**–**	380,000
Lease liabilities	4.1	**57,216**	–
Deferred income tax liabilities		**435,501**	449,808
Deferred revenue		**34,615**	39,277
Financial liabilities at fair value through profit or loss		**639,022**	1,954,165
		1,166,354	2,823,250
Current liabilities			
Borrowings	19	**919,095**	1,385,445
Lease liabilities	4.1	**65,278**	–
Trade payables	20	**1,160,978**	1,131,067
Other payables and accruals		**1,868,902**	1,818,151
Deferred revenue		**972,771**	1,005,319
Current income tax liabilities		**166,057**	65,375
Financial liabilities at fair value through profit or loss		**1,122,478**	1,190,954
		6,275,559	6,596,311
Total liabilities		**7,441,913**	9,419,561
Total equity and liabilities		**26,232,896**	27,834,606

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019

	Attributable to equity holders of the Company								
	Share capital *RMB'000*	Share premium *RMB'000*	Treasury shares *RMB'000*	Shares held for RSU scheme *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
(Unaudited)									
As of January 1, 2019	649	16,456,555	–	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045
Comprehensive income/(loss)									
Profit for the period	–	–	–	–	–	392,722	392,722	498	393,220
Other comprehensive loss									
– Share of other comprehensive loss of an associate	–	–	–	–	(415)	–	(415)	–	(415)
– Currency translation differences	–	–	–	–	(18,139)	–	(18,139)	(5)	(18,144)
Total comprehensive income/(loss) for the period	–	–	–	–	(18,554)	392,722	374,168	493	374,661
Transaction with owners									
Share-based compensation expenses	–	–	–	–	71,639	–	71,639	–	71,639
Repurchase of shares (not yet cancelled)	–	–	(6,254)	–	–	–	(6,254)	–	(6,254)
Repurchase and cancellation of shares	–	(9,602)	–	–	–	–	(9,602)	–	(9,602)
Transfer of vested RSUs	–	(41,928)	–	2	–	–	(41,926)	–	(41,926)
Dividends paid	–	–	–	–	–	–	–	(7,981)	(7,981)
Capital injection	–	–	–	–	–	–	–	6,200	6,200
Acquisition of non-controlling interests	–	–	–	–	(594)	–	(594)	(10,205)	(10,799)
Transactions with owners in their capacity for the period	–	(51,530)	(6,254)	2	71,045	–	13,263	(11,986)	1,277
As of June 30, 2019	649	16,405,025	(6,254)	(19)	950,641	1,440,867	18,790,909	74	18,790,983

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net cash (used in)/generated from operating activities	**(2,182)**	470,531
Net cash (used in)/generated from investing activities	**(1,587,276)**	493,246
Net cash flows used in financing activities	**(1,061,107)**	(18,488)
Net (decrease)/increase in cash and cash equivalents	**(2,650,565)**	945,289
Cash and cash equivalents at beginning of the period	**8,342,228**	7,502,430
Exchange (losses)/gains on cash and cash equivalents	**(19,287)**	61,858
Cash and cash equivalents at end of the period	**5,672,376**	8,509,577

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

China Literature Limited (the "Company") was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The registered office is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 8, 2017.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "Group"), are principally engaged in the provision of reading services (either free or paid), copyright commercialisation (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realisation of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the 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 "New Classics Media" and previously known as "Qiandao Lake Holdings Limted". New Classics Media and its subsidiaries are 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 Interim Financial Information comprises the consolidated statement of financial position as of June 30, 2019, the related consolidated statement of comprehensive income for the six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Interim Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' issued by the International Accounting Standards Board and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as set out in the 2018 annual report of the Company dated March 18, 2019 (the "2018 Financial Statements").

3 Significant accounting policies

Except as described below in Note 3.1, Note 4, Note 15 and Note 16, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2018 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, 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.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profit.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies, apply the simplified transition approach and does not restate any comparative amounts for the year prior to first adoption as a result of adopting IFRS 16 *Leases*.

The impacts of the adoption of the leasing standard and the new accounting policies are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

A number of new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2019, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4 Changes in accounting policy and other key accounting policies

As explained in Note 3.1 above, the Group has adopted IFRS 16 from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on January 1, 2019.

4.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.70%.

	At January 1, 2019
	RMB'000
Operating lease commitments disclosed as of December 31, 2018	148,826
Discounted using the lessee's incremental borrowing rate of at the date of initial application	137,880
Less: short-term leases recognised on a straight-line basis as expense	(2,226)
Less: low-value leases recognised on a straight-line basis as expense	(218)
Lease liability recognised as of January 1, 2019	135,436
Of which are:	
Current lease liabilities	63,382
Non-current lease liabilities	72,054

The right-of-use assets were measured on a simplified transition approach without restating comparative amounts, and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as of December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	June 30, 2019	**January 1, 2019**
	RMB'000	*RMB'000*
Properties	124,441	138,933
Vehicle	437	–
Equipment	105	165
Total right-of-use assets	124,983	139,098

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets – increase by RMB139,098,000
- lease liabilities – increase by RMB135,436,000
- prepayments – decrease by RMB5,338,000
- other payables and accruals – decrease by RMB1,676,000

Since the Group applied the simplified transition approach, there has been no impact on retained earnings on January 1, 2019.

(i) *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous;

- the accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

4.2 The Group's leasing activities and how these are accounted for

The Group leases various properties, equipment and vehicle. Rental contracts are typically made for fixed periods of 1 to 8 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of fixtures.

5 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 June 30, 2018, 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 June 30, 2019, 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 licensing and distribution of film and television properties, copyrights licensing, sales of physical books, in-house online games operations, etc.)

As of June 30, 2019, 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, net impairment loss on financial assets, other gains, net, 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 six months ended June 30, 2019 and 2018. 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 the Interim Financial Information. 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.

6 Revenues

6.1 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**		
(Unaudited)	**On self-owned platform products**	**On self-operated channels on Tencent products**	**On third-party platforms**	**Intellectual property operations**	**Others**	**Total**
Six months ended June 30, 2019	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Timing of revenue recognition:						
– At a point in time	**864,133**	**359,042**	**245,769**	**781,108**	**88,799**	**2,338,851**
– Over time	**121,208**	**72,329**	**–**	**433,922**	**4,641**	**632,100**
	985,341	**431,371**	**245,769**	**1,215,030**	**93,440**	**2,970,951**

	Online business			Intellectual property operations and others		
(Unaudited)	On self-owned platform products	On self-operated channels on Tencent products	On third-party platforms	Intellectual property operations	Others	Total
Six months ended June 30, 2018	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Timing of revenue recognition:						
– At a point in time	975,683	472,851	283,030	316,990	84,219	2,132,773
– Over time	120,818	26,827	–	2,482	–	150,127
	1,096,501	499,678	283,030	319,472	84,219	2,282,900

7 Expenses by nature

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*
Promotion and advertising expenses	**712,198**	320,915
Content costs	**556,089**	744,408
Employee benefits expenses	**413,405**	305,403
Production costs of television series and film rights	**322,278**	–
Platform distribution costs	**197,064**	107,389
Payment handling costs	**167,140**	134,739
Amortisation of intangible assets	**83,301**	73,697
Cost of inventories sold	**50,815**	40,732
Game development outsourcing costs	**43,523**	2,700
Animation production costs	**37,413**	23,347
Professional service fees	**35,069**	46,066
Provision for inventory obsolescence	**32,910**	27,118
Depreciation of right-of-use assets	**31,343**	–
Bandwidth and server custody fees	**27,103**	29,248
Travelling, entertainment and general office expenses	**23,505**	16,789
Depreciation of property, plant and equipment	**10,968**	7,255
Auditors' remuneration		
– Audit services	**4,938**	6,034
– Non-audit services	**212**	209
Logistic expenses	**3,520**	4,633
Operating lease rentals	**1,587**	28,446
Others	**45,540**	28,492
	2,799,921	1,947,620

8 Other gains, net

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Fair value gain on financial liabilities at fair value through profit or loss	**194,116**	–
Subsidies and tax rebates	**50,238**	28,986
Fair value gain on financial assets at fair value through profit or loss	**11,970**	26,229
Gain on disposal of certain portion of film rights	**6,700**	–
Gain on copyright infringements	**3,405**	1,700
Gain on disposal of a subsidiary	**–**	127,911
Others	**3,143**	(315)
	269,572	184,511

9 Income tax expense

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

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

(b) Hong Kong profit tax

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

(c) PRC corporate income tax

CIT provision was made on the estimated assessable profit of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the periods presented.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the periods presented according to the applicable CIT Law.

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

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Current income tax	**171,882**	67,403
Deferred income tax	**(48,362)**	34,528
Income tax expense	**123,520**	101,931

10 Earnings per share

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

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net profit attributable to the equity holders of the Company	**392,722**	505,810
Weighted average number of ordinary shares in issue (thousand)	**1,000,452**	878,194
Basic earnings per share (expressed in RMB per share)	**0.39**	0.58

(b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended June 30, 2018 and 2019, the Company has the dilutive potential ordinary shares of restricted shares units ("RSUs") granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) 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.

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Net profit attributable to the equity holders of the Company	**392,722**	505,810
Impact of a joint venture's and an associate's potential ordinary shares	**–**	(528)
Net profit used to determine earnings per share	**392,722**	505,282
Weighted average number of ordinary shares in issue (thousand)	**1,000,452**	878,194
Adjustments for share-based compensation－RSUs (thousand)	**9,571**	15,261
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**1,010,023**	893,455
Diluted earnings per share (expressed in RMB per share)	**0.39**	0.57

11 Dividends

No dividends have been paid or declared by the Company during the six months ended June 30, 2019 and 2018.

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*
(Unaudited)										
Six months ended June 30, 2019										
Opening net book amount as of January 1, 2019	10,653,325	23,383	1,132,893	273,251	51,333	800	21	3,615	2,536	12,141,157
Additions	–	–	–	88,536	–	–	–	682	–	89,218
Amortization	–	(3,050)	(13,598)	(57,409)	(7,333)	(400)	(21)	(1,316)	(174)	(83,301)
Currency translation differences	–	–	–	675	–	–	–	2	–	677
Closing net book amount as of June 30, 2019	**10,653,325**	**20,333**	**1,119,295**	**305,053**	**44,000**	**400**	**–**	**2,983**	**2,362**	**12,147,751**

As of June 30, 2019, goodwill is allocated to the Group's cash-generating units identified as follows:

	As of June 30, 2019 *RMB'000* *(Unaudited)*
Online business	**3,720,323**
Acquired TV and film business	**6,933,002**
	10,653,325

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

13 Investments in associates and joint ventures

	As of June 30, 2019 *RMB'000* *(Unaudited)*	As of December 31, 2018 *RMB'000*
Investments in associates (a)	**395,743**	307,794
Investments in joint ventures (b)	**473,453**	373,124
	869,196	680,918

(a) Investments in associates

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
At the beginning of the period	**307,794**	184,396
Additions	**136,471**	–
Share of profit/(loss) of the associates	**22,214**	(2,235)
Share of other comprehensive loss of an associate	**(415)**	–
Currency translation differences	**345**	–
Liquidation of an associate	**(70,666)**	–
At the end of the period	**395,743**	182,161

(b) Investments in joint ventures

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
At the beginning of the period	**373,124**	157,918
Additions	**85,061**	163,000
Dividend from a joint venture	**(45,000)**	–
Share of profit of the joint ventures	**60,268**	53,219
At the end of the period	**473,453**	374,137

(c) Joint operations

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

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 at fair value through profit or loss include the following:

	As of June 30, 2019	As of December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	
Included in non-current assets:		
Investments in redeemable shares of associates	**423,000**	444,137
Investments in unlisted entities	**12,000**	–
Included in current assets:		
Derivative financial assets	**–**	26,804
	435,000	470,941

Movement of financial assets at fair value through profit or loss is analysed as follows:

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
At the beginning of the period	**470,941**	–
Adjustment on adoption of IFRS 9	**–**	304,594
Additions	**12,000**	–
Changes in fair value (Note 8)	**11,970**	26,229
Conversion of an associate's preferred shares to ordinary shares	**(23,000)**	–
Settlement of forward foreign currency contract	**(36,911)**	–
At the end of the period	**435,000**	330,823

(b) Amounts recognised in profit or loss

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

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Fair value gain on financial assets at fair value through profit or loss		
– Fair value gain of investment in redeemable shares of associates	**1,863**	229
– Fair value gain of derivative financial assets	**10,107**	26,000

15 Inventories

	As of June 30, 2019	As of December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	
Adaptation rights and scripts	**764,020**	–
Raw materials	**11,167**	13,185
Work in progress	**14,716**	19,542
Inventories in warehouse	**85,652**	87,432
Inventories held with distributors on consignment	**99,254**	109,231
Others	**9,076**	9,335
	983,885	238,725
Less: provision for inventory obsolescence	**(108,399)**	(109,032)
	875,486	129,693

Inventories mainly consist of adaptation rights and scripts, paper and books and side-line merchandise for sale. Inventories are stated at the lower of cost or net realisable value. During the six months ended June 30, 2019, the cost of inventories, including provision for inventory obsolescence, recognized as expense and included in "cost of revenues" amounted to approximately RMB83,725,000 (six months ended June 30, 2018: RMB67,850,000).

16 Television series and film rights

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31 2018 RMB'000
Television series and film rights		
– adaptation rights and scripts	**–**	709,491
– under production	**1,486,733**	1,416,202
– completed	**1,015,211**	731,363
	2,501,944	2,857,056

	Adaptation rights and scripts RMB'000	Under production RMB'000	Completed RMB'000	Total RMB'000
(Unaudited)				
As of January 1, 2019	**709,491**	**1,416,202**	**731,363**	**2,857,056**
Transfer to inventories (Note a)	**(709,491)**	**–**	**–**	**(709,491)**
Additions	**–**	**603,441**	**2,809**	**606,250**
Transfer from under production to completed	**–**	**(640,730)**	**640,730**	**–**
Transfer from adaptation rights and scripts to under production	**–**	**107,820**	**–**	**107,820**
Recognised in cost of revenue	**–**	**–**	**(359,691)**	**(359,691)**
As of June 30, 2019 (Note b)	**–**	**1,486,733**	**1,015,211**	**2,501,944**

Notes:

(a) Prior to 2019, the adaptation rights and scripts (the "Rights") were recorded in "Television series and film rights" for the purpose of production. In order to evolve business strategy, the Group has started to sell some of the Rights to customers. Hence, management considers it is more appropriate to reclassify the Rights from "Television series and film rights" to "Inventories".

(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.

17 Trade and notes receivables

The Group usually allows a credit period of 30 to 360 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 June 30, 2019	As of December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	
Trade and notes receivables		
– Up to 3 months	**975,048**	978,853
– 3 to 6 months	**227,848**	688,166
– 6 months to 1 year	**306,833**	95,986
– 1 to 2 years	**82,929**	29,608
– Over 2 years	**24,352**	37,783
	1,617,010	1,830,396

As of June 30, 2019 and December 31, 2018, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 360 days. As of June 30, 2019, only insignificant amounts of the remaining balances were past due.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as of June 30, 2019 and December 31, 2018.

18 Share-based payments

(a) Share-based compensation plans of Tencent

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

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

	Number of RSUs
(Unaudited)	
As of January 1, 2019 and June 30, 2019	**–**
As of January 1, 2018 and June 30, 2018	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 plans of the Group

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

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

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

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

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
(Unaudited)	
As of January 1, 2019	**17,477,000**
Granted	**235,000**
Forfeited	**(325,500)**
Vested	**(1,112,500)**
Outstanding balance as of June 30, 2019	**16,274,000**
(Unaudited)	
As of January 1, 2018	20,303,500
Forfeited	(394,000)
Vested	(1,156,500)
Outstanding balance as of June 30, 2018	18,753,000

The fair value of each RSUs was calculated based on the market price of the Company's shares at the respective grant date.

19 Borrowings

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Non-current	–	380,000
Current	919,095	1,385,445
	919,095	1,765,445

Notes:

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, 2018, the short-term borrowing balance of RMB475,000,000 consisted of two borrowings of RMB403,326,880 and RMB71,673,120, respectively, borrowed from Bank of Communications under the loan facility agreement. The loans bore a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum. The loan facility was guaranteed by Bank of Communications, Tokyo Branch, and it has been repaid in March 2019.

In June 2019, one of the Group's subsidiaries Shanghai Xuanting Entertainment Information Technology Co., Ltd. ("Shanghai Xuanting") entered into a one-year loan agreement and borrowed RMB30,000,000 with Shanghai Pudong Development Bank. The loan was unsecured and bore an interest rate of 3.92% per annum.

As of June 30, 2019 and December 31, 2018, the Group's unsecurred long-term bank borrowings consist of RMB300,000,000 variable-rate borrowings bearing floating interest rates of People's Bank of China's loan prime rate plus 0.95% per annum. These unsecurred long-term bank borrowings will be repayable from December 7, 2019 to April 17, 2020. These long-term bank borrowings of RMB300,000,000 were guaranteed by Mr. Cao Huayi (chief executive officer of New Classics Media) (or referred to as "Mr. Cao"). As of June 30, 2019 and December 31, 2018, the borrowing balance of RMB300,000,000 and RMB100,000,000 were reclassified to current liabilities as the borrowings will be repayable within 12 months after the end of the reporting period, respectively.

As of December 31, 2018, the Group's unsecured long-term bank borrowings consist of RMB66,000,000 fixed-rate borrowings bearing interest rates of 5.225% per annum. These long-term bank borrowings of RMB66,000,000 were guaranteed by Mr. Cao and/or a few subsidiaries of the Group. As of December 31, 2018, the borrowing balance of approximately RMB66,000,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after the end of the reporting period. These borrowings have been repaid during the six months ended June 30, 2019.

As of June 30, 2019, the Group's unsecured short-term bank borrowings consist of RMB163,650,000 fixed-rate borrowings bearing interest rates of 5.22% per annum and RMB309,550,000 variable-rate borrowings bearing interest rates ranging from 5.23% to 5.4375%. The short-term bank borrowings of RMB473,200,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group.

As of December 31, 2018, the Group's unsecured short-term bank borrowings consist of RMB139,000,000 fixed-rate borrowings bearing interest rates of 5.22% per annum and RMB489,550,000 variable-rate borrowings bearing 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.

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 was guaranteed by Mr. Cao and a subsidiary of the Group, and this borrowing has been repaid in April 2019.

As of June 30, 2019 and December 31, 2018, the Group's secured long-term bank borrowings consist of approximately RMB115,895,000 borrowings bearing 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 June 30, 2019 and 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.

20 Trade payables

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

	As of June 30, 2019	As of December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	
– Up to 3 months	**658,253**	705,318
– 3 to 6 months	**240,976**	259,006
– 6 months to 1 year	**114,383**	39,328
– 1 to 2 years	**102,549**	79,383
– Over 2 years	**44,817**	48,032
	1,160,978	1,131,067

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 of June 30, 2019, the Group had:

- used approximately RMB683.7 million for expanding the Group's online reading business and sales and marketing activities;

- used approximately RMB258.5 million for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles; and

- used approximately RMB1,843.4 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.

DIVIDEND

The Board did not propose any interim dividend for the six months ended June 30, 2019.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2019, the Company purchased 545,600 Shares on the Stock Exchange for an aggregate consideration of HKD17,950,863 before expenses pursuant to the share buy-back mandate approved by our shareholders at the annual general meeting held on May 17, 2019. The bought-back Shares were subsequently cancelled. The purchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares purchases are as follows:

	Purchase consideration per share			**Aggregate**
Date for purchase	**Highest price paid**	**Lowest price paid**	**No. of shares purchased**	**consideration paid**
	HKD	*HKD*		*HKD*
June 12, 2019	32.50	32.00	83,600	2,710,790.00
June 13, 2019	32.65	31.85	62,000	1,993,560.00
June 14, 2019	32.50	32.05	75,600	2,440,353.00
June 17, 2019	32.40	31.85	48,200	1,543,200.00
June 18, 2019	32.00	32.00	2,600	83,200.00
June 19, 2019	33.00	32.85	63,400	2,088,600.00
June 20, 2019	33.00	33.00	800	26,400.00
June 25, 2019	33.80	32.65	91,200	3,069,200.00
June 26, 2019	34.00	33.60	48,200	1,635,150.00
June 27, 2019	33.80	33.35	70,000	2,360,410.00
Total:			545,600	17,950,863.00

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2019.

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of the Group's business. The Company has adopted the CG Code as its own code of corporate governance.

For the six months ended June 30, 2019, the Company has complied with all applicable code provisions of the CG codes.

Model Code for Dealing in Securities by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the six months ended June 30, 2019.

Audit Committee

The Audit Committee, together with the management and the Auditor has reviewed the interim results of the Group for the six months ended June 30, 2019. The Audit Committee has also reviewed the effectiveness of the risk management and Internal Control System of the Company and considered the risk management and Internal Control System to be effective and adequate.

Publication of the Results Announcement and Interim Report

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

APPRECIATION

Finally, I would like to thank our management and employees for their commitment, contributions, and creativity; our Board of Directors for its guidance and support; and our shareholders for their trust.

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

Hong Kong, August 12, 2019

As of 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, Mr. Cao Huayi and Ms. Chen Fei as Non-Executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent Non-Executive Directors.

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

DEFINITION

"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	PricewaterhouseCoopers, the external auditor of the Company;
"Board"	:	the board of Directors of the Company;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
"China" or the "PRC"	:	the People's Republic of China;
"Company", "our Company", "the Company"	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"Director(s)"	:	the director(s) of our Company;
"Group", "our Group", "the Group", "we", "us", or "our"	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"HKD"	:	the lawful currency of Hong Kong;
"Hong Kong "	:	the Hong Kong Special Administrative Region of the People's Republic of China;
"IP"	:	intellectual property
"IPO"	:	initial public offering;

"IPO Proceeds"	:	the total net proceeds of HKD7,235 million from the Company's global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses;
"Listing Date"	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"Main Board"	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Classics Media Holdings Limited (NCM)"	:	previously known as "Qiandao Lake Holdings Limited", a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series and movies;
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;

"Reporting Period"	:	the six months ended June 30, 2019;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);
"Shanghai Yuewen"	:	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Shareholders"	:	holder(s) of our Share(s);
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Tencent"	:	Tencent Holdings Limited, 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.