阅文集团

CHINA LITERATURE LIMITED

阅 文 集 团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019 AND ISSUE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

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, 2019. 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,		
	2019 ***RMB'000***	2018 *RMB'000*	Year-over-year (%)
Revenues	**8,347,767**	5,038,250	65.7
Gross profit	**3,692,023**	2,557,979	44.3
Operating profit	**1,193,907**	1,114,951	7.1
Profit before income tax	**1,179,797**	1,077,801	9.5
Profit for the year	**1,112,134**	912,398	21.9
Profit attributable to equity holders of the Company	**1,095,953**	910,636	20.4
Non-GAAP profit attributable to equity holders of the Company	**1,194,618**	900,490	32.7

BUSINESS REVIEW AND OUTLOOK

Company Strategic Highlights

2019 was a challenging year for China Literature as our business was impacted by rising competition over price and traffic, together with delayed broadcast approval for drama series. Nonetheless, the challenging conditions created opportunities for us to adapt and innovate. We have sought and will continue to enhance our capabilities and elevate our strategy in certain areas, while adhering to long-held principles and directions in others.

During this year, we brought on-board more up-and-coming writers, improved the quality and diversity of content and genres, and evolved our business model by introducing free-to-read (monetized through advertising) services. We also extended our IP licensing from live action costume drama series to modern-day live action and animated drama series. While adapting to industry changes, we enhanced our existing strategies and strengths that we believe differentiate us from our peers. We continued to nurture and extend our literature creation platform and consumption community while continuing to support writers who choose to monetize their efforts via our pay-to-read model. We continued to develop New Classics Media's position as a leading drama series and film production studio and deepened our relationships with key distribution and content partners. We believe these efforts will strengthen our competitive advantage and support our long-term sustainable growth.

We remain fundamentally positive about the enduring value of high-quality storytelling, and thus the business opportunity for our core activities of literature creation, aggregation and distribution, video series production, and content extension. Our confidence is founded on the multi-millennium history of people welcoming literature and the observation that the highest quality long form content generally enjoys great longevity and its ability to inspire adjacent content, such as TV series, films, and games. We and the writers on our platform are embarked on a steep but ultimately rewarding path of creating content that is nutritious and shapes new tastes.

Online Business

How we innovate content

In 2019, we further strengthened our content offerings and expanded the catalog of high-quality literary works and writers on our platform. As of December 31, 2019, our library featured 8.1 million writers and 12.2 million works of literature, including 11.5 million original literary works written by writers on our platform, 400,000 works sourced from third-party platforms, and 280,000 e-books. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, around 38 billion individual Chinese characters were added to our platform in 2019. According to Baidu's February 2020 search rankings, 25 out of the top 30 online literary works were created on our platform.

We believe innovation is critical to developing content and is a key driver of our platform's growth. In 2019, much of the innovation taking place on our platform in terms of content is contributed by Generation Z writers who have the passion and ability to engage with younger demographics in a distinctively different manner than previous generations. Collectively they account for 25% of our platinum and phenomenal writers at present and help us to push the boundaries of China's online literature world. For example, the author of *Lord of the Mysteries (詭秘之主)* managed to creatively combine elements of drama and video games to tell his story in an unconventional way. The success of *Lord of the Mysteries (詭秘之主)* is reflected in the over two million user comments it has generated and the close to one million fan-base its seven major characters have created. We believe this novel and the many others likewise created by Generation Z writers are still at very early stages of development and still have enormous growth potential as they expand their influence in the future.

Our platform not only incubates best-sellers but also encourages diversity. This ensures the healthy growth of our content ecosystem and helps us promote the unique value proposition we offer to our massive user base. Each year, we test a number of new content categories to gauge user appetite. This year's winning categories included science fiction, comic fiction, history and short-form novels. Traffic growth to these categories significantly outperformed others on our platform and is further supported by high user satisfaction and our strengthened cross-promotional capabilities.

Combining innovation and diversity, our platform's success is increasingly being recognized by mainstream media. In 2019, 45 of our literary works and 27 of our authors were recognized with honors and awards from the State Administration of Press, Publication, Radio, Film and Television ("SAPPRFT") and the China Writers Association ("CWA") at the national and regional level. Six of our literary works, namely *Great Power Heavy Industry (大國重工)*, *A Story of Police Man (朝陽警事)*, *Era of the Earth (地球紀元)*, *Magic Industrial Times (魔力工業時代)*, *Forty Millenniums of Cultivation (星域四萬年)* and *Legend of Xiao Chuo (燕雲台)*, were selected by SAPPRFT and CWA in recognition of their contribution to online literature during the celebration of the 70th anniversary of the founding of the People's Republic of China, a feat which no other company in the sector could match.

How we engage users

We believe content is only the starting point for an engaging reading experience. We value every minute our readers spend on our platform and are committed to delivering a superior experience through operational improvements and technological innovations, often times beyond reading itself.

One example is "paragraph commenting", a function we launched in 2018 to enhance user engagement with the writer by encouraging more instant comments from readers. We quickly recognise that this function also strengthened user engagement among themselves with many commenting on each other in such a way that they are in essence creating "user-generated content". We also rolled out a new function in late 2019 which allows users to submit their own audio recordings of select sentences in a novel and listen to and comment on others which instantly became popular. This function creates an incentive for users to become content creators by bringing a voice to the original text and creates more layers of context for engagement which brings the community closer together. As of December 31, 2019, the most popular literary work has accumulated approximately 20,000 audio readings and approximately 140,000 comments related to these audio readings.

In addition to building a social graph within our community, we also use deep learning and natural language processing technologies to map out the interests of individual users and features of literary works so that we can recommend the most relevant content to our users. This is an integral part of how we enhance user satisfaction and improve the overall efficiency of content distribution. We also introduced a central data platform, which uses an integrated recommendation system for multiple products and further improved recommendation and R&D efficiency.

We continued to grow our user base throughout the year as we optimized our content and operations, with average MAUs increasing to 219.7 million in 2019 from 213.5 million in 2018.

How we evolve our business model

We understand the diversity of our massive user base and are ready to capture new business opportunities by launching new product offerings. For price-sensitive users, we introduced a free-to-read model which allows users to read literary works for free while we monetize through advertising. The free-to-read content is sourced from both selected works from our in-house and external partner libraries. To avoid cannibalizing users from our paid-content model, we have selected less popular but still high-quality works from our paid apps, as viewership for paid titles in our library is unevenly distributed and many titles are not able to generate meaningful revenues shortly after their debuts. 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.

The free-to-read model directly complements our existing paid content model and allows us to offer a greater breadth of content and serve a broader range of users. We will continue to expand the free content library and believe high-quality content is our core competitive differentiator. The complementary offerings of free and paid content will help us broaden our user base and diversify our monetization channels.

IP Operations

Integration of NCM

We took a major step towards bringing our best-in-class IPs to life through drama series with the acquisition of NCM in October 2018. Despite industry headwinds, NCM has demonstrated its unique ability to develop top-tier content with the release of *Memories of Peking (芝麻胡同)*, *Awakening of Insects (驚蟄)*, *Joy of Life (慶餘年)* and *The Best Partner (精英律師)* throughout 2019. All of these drama series ranked top in terms of viewership during their respective broadcast time slots.

Most notably, *Joy of Life (慶餘年)*, which was adapted from one of our most popular novels, ranked first among all TV and web series on Baidu and Toutiao's 2019 search indices. The success of the drama series has also rekindled interest in the novel, which once again topped the rankings on our best-seller list since its original launch over 10 years ago and attracted 3.5 million recommendations and over 600,000 rewards. Building on this phenomenal success, development for *Joy of Life (慶餘年)* season 2 is already underway.

The success of *Joy of Life (慶餘年)* strengthens our confidence in NCM's capabilities making them the ideal partner-of-choice. NCM is the critical missing piece that we have been seeking to amplify the value of our IPs. We expect to replicate this success with other suitable IPs and build out a sustainable product pipeline.

To leverage existing fan bases for popular drama series and IPs, NCM is planning to produce sequels for a number of drama series. In addition to the above-mentioned *Joy of Life (慶餘年)* season 2, NCM is developing season 2 for *The Best Partner (精英律師)* and *Battle Through the Heavens (斗破蒼穹)*. We believe this will create a virtuous cycle where a successful drama creates a large fan base for the sequel which in turn further grows the fan base and prolongs the lifecycle of the content.

Proprietary IP Operations

We continued to make progress in licensing our IP for adaptation into other content formats such as films, TV and web series, animations and games. In 2019, around 160 literary works were licensed to third-party partners for adaptation.

We released a number of high-quality animations in 2019, including *Galaxy Devastator (崩壞星河)*, *Cinderella Chef (萌妻食神)*, *Martial Universe (武動乾坤)*, as well as new seasons for *Battle Through the Heavens (斗破蒼穹)*. In particular, *Martial Universe (武動乾坤)* Season 1 generated over 800 million views, and *Battle Through the Heavens (斗破蒼穹)* Season 3 and its Special Edition 2 *Song of Desert (斗破蒼穹特別篇2沙之瀾歌)* accumulated a total of 1.3 billion views, making the animation series collectively attract over 5.4 billion views. In addition, *The King's Avatar: For the Glory (全職高手之巔峰榮耀)* was the first E-sports animated film to hit Chinese cinemas in 2019. A number of co-produced drama series have also gone on to become very popular in 2019, including *The Golden Eyes (黃金瞳)*, *Pretty Man 2 (國民老公2)* and *Sweet Tai Chi (淑女飄飄拳)*.

By cooperating with high-caliber partners across the entertainment industry, we are seeing our growing library of adapted films, TV and web series, animations, and games amplifying the value of our IPs. For example, the *Soul Land (斗羅大陸)*, an adaption of one of our flagship literary works, was the most watched domestic animation series in China in 2018 and 2019. *New Soul Land (新斗羅大陸)*, a mobile game adapted from the same IP and operated by ourselves, gained instant popularity after its release and won a number of high profile awards such as the *2019 Golden Gyro "Popular IP Game of the Year" (二零一九金陀螺「年度人氣IP遊戲獎」)* and the *2019 Golden Grape "Most Remarkable Game" (二零一九金葡萄「最受關注遊戲獎」)*. Following the enthusiasm created by the animation series and the game, NCM is also producing an adapted drama series. We believe this IP-centric monetization model will allow us to prolong the lifecycle of our IP and monetize it efficiently across various different formats.

To expand our presence in the audio market, we recently formed a strategic partnership with Tencent Music Entertainment Group ("Tencent Music"), a leading online music entertainment platform in China. The strategic partnership allows Tencent Music to produce audiobooks for our online literary content and these audiobooks will be made available on both parties' platforms. We believe this collaboration will enrich our audiobook library, expand our content user base, further diversify our monetization methods and in turn attract more writers to our platform.

International Expansion

WebNovel, our foreign language website and mobile platform, grew steadily throughout the year by generating approximately 36 million visits. As of December 31, 2019, WebNovel offered nearly 700 literary works translated from Chinese and 88,000 original literary works in English and other local languages, representing a significant increase from 13,000 literary works that were offered as of December 31, 2018.

To accelerate our presence in Southeast Asia, we 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 addition, we invested in Ookbee U Company Limited, a leading online literature platform in Thailand, to better explore opportunities and penetrate the Thailand online literature market.

We also formed a strategic partnership with Transsion Holdings Limited, a leading smart device manufacturer and mobile internet service provider in emerging markets overseas, to expand into Africa's largely untapped online literature market.

Outlook

Looking forward, we will continue to develop best-in-class content that exceeds market expectations and effectively caters to the evolving tastes of our users. We will further develop our literary ecosystem by enhancing our user operations and building a more engaging community. As NCM is integrated deeper into our operations, we will continue to expand our presence in drama adaptation and production and develop drama sequels for top-performing IPs. Joining forces with NCM and other top partners in the entertainment industry reflects our commitment to developing IPs into best-in-class drama series, films, animations, comics and games to enhance their value.

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2019 Compared to Year ended December 31, 2018

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenues	**8,347,767**	5,038,250
Cost of revenues	**(4,655,744)**	(2,480,271)
Gross profit	**3,692,023**	2,557,979
Interest income	**157,539**	200,817
Other gains, net	**453,194**	338,910
Selling and marketing expenses	**(2,073,937)**	(1,293,107)
General and administrative expenses	**(1,010,282)**	(726,470)
Net (provision for)/reversal of impairment losses on financial assets	**(24,630)**	36,822
Operating profit	**1,193,907**	1,114,951
Finance costs	**(172,618)**	(148,489)
Share of net profit of associates and joint ventures	**158,508**	111,339
Profit before income tax	**1,179,797**	1,077,801
Income tax expense	**(67,663)**	(165,403)
Profit for the year	**1,112,134**	912,398
Attributable to:		
Equity holders of the Company	**1,095,953**	910,636
Non-controlling interests	**16,181**	1,762
	1,112,134	912,398
Non-GAAP profit for the year	**1,210,837**	902,535
Attributable to:		
Equity holders of the Company	**1,194,618**	900,490
Non-controlling interests	**16,219**	2,045
	1,210,837	902,535

Revenues. Revenues increased by 65.7% to RMB8,347.8 million for the year ended December 31, 2019 on a year-over-year basis. The following table sets forth our revenues by segment for the years ended December 31, 2019 and 2018:

	Year ended December 31,			
	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
Online business[1]				
On our self-owned platform products	**2,425,142**	**29.1**	2,213,089	43.9
On our self-operated channels on Tencent products	**836,027**	**10.0**	951,774	18.9
On third-party platforms	**449,249**	**5.4**	663,063	13.2
Subtotal	**3,710,418**	**44.5**	3,827,926	76.0
Intellectual property operations and others[2]				
Intellectual property operations	**4,423,104**	**53.0**	1,003,032	19.9
Others	**214,245**	**2.5**	207,292	4.1
Subtotal	**4,637,349**	**55.5**	1,210,324	24.0
Total revenues	**8,347,767**	**100.0**	5,038,250	100.0

Notes:

(1) Revenues from online business primarily reflect revenues from online paid reading, online advertising and distribution of third-party online games on our platform.

(2) Revenues from intellectual property operations and others primarily reflect revenues from production and distribution of TV, web and animated series, films, licensing of IP rights for adaptation, operation of self-operated online games and sales of physical books.

– Revenues from online business decreased by 3.1% to RMB3,710.4 million for the year ended December 31, 2019 on a year-over-year basis, accounting for 44.5% of total revenues.

Revenues from online business on our self-owned platform products increased by 9.6% year-over-year to RMB2,425.1 million in 2019, primarily driven by the revenue growth of our paid reading business, as well as the initial contribution of advertising revenues during the year.

Revenues from online business on our self-operated channels on Tencent products decreased by 12.2% year-over-year to RMB836.0 million in 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 2019 on these Tencent products.

Revenues from online business on third-party platforms decreased by 32.2% year-over-year to RMB449.2 million in 2019, primarily due to the suspension of cooperation with several distribution partners and the decrease in revenues from certain third-party platform cooperators during 2019.

The following table summarizes our key operating data for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
Average MAUs on our self-owned platform products and self-operated channels on Tencent products (average of MAUs for each calendar month)	**219.7 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)	**9.8 million**	10.8 million
Paying Ratio[(1)]	**4.5%**	5.1%
Monthly average revenue per paying user ("ARPU")[(2)]	**RMB25.3**	RMB24.1

Notes:

(1) Paying ratio is calculated as average MPUs divided by 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 2.9% year-over-year from 213.5 million in 2018 to 219.7 million in 2019, among which (i) MAUs on our self-owned platform products increased 9.4% year-over-year from 109.2 million to 119.5 million, driven by user growth from our paid reading products, as well as the user contribution from our free-to-read product; and (ii) MAUs on our self-operated channels on Tencent products decreased 3.9% year-over-year from 104.3 million to 100.2 million, primarily due to the user allocation strategy for certain Tencent products was changed and less online paid reading content was promoted, partially offset by the introduction of free-to-read content attracting new users in 2019.

- Average MPUs on our self-owned platform products and self-operated channels decreased by 9.3% year-over-year from 10.8 million in 2018 to 9.8 million in 2019. The decrease was mainly due to the continued decline of paying users from our self-operated channels on certain Tencent products as more users were allocated to read free-to-read content on these channels in 2019.

- As a result of the foregoing, the paying ratio decreased from 5.1% in 2018 to 4.5% in 2019.

- Monthly ARPU increased by 5.0% year-over-year from RMB24.1 in 2018 to RMB25.3 in 2019, mainly because we enhanced the depth of our content operations, optimized our recommendation system and expanded content distribution channels during the year.

– Revenues from intellectual property operations and others increased by 283.1% year-over-year to RMB4,637.3 million for the year ended December 31, 2019.

Revenues from intellectual property operations increased by 341.0% year-over-year to RMB4,423.1 million in 2019. The increase was primarily due to (i) the full year consolidation of NCM's revenues in 2019 since we acquired its business in October 2018, and (ii) an increase in revenues from IP-related self-operated online games and co-invested drama series, reflecting our increasing participation in the IP adaptation businesses.

Revenues from others increased by 3.4% year-over-year to RMB214.2 million in 2019.

Cost of revenues. Cost of revenues increased by 87.7% year-over-year to RMB4,655.7 million in 2019, mainly due to greater production costs of TV, web and animated series and films, which increased from RMB273.3 million in 2018 to RMB2,134.1 million in 2019 along with the rapid increase in revenues, as well as an increase in platform distribution costs primarily due to increased distribution cost for self-operated online games as revenue increased and expansion of online reading channels.

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

	Year ended December 31,			
	2019		2018	
	RMB'000	***% of revenues***	*RMB'000*	*% of revenues*
Content costs	**1,477,077**	**17.7**	1,529,313	30.4
Production costs of TV, web and animated series and films	**2,134,057**	**25.6**	273,276	5.4
Platform distribution costs	**569,497**	**6.8**	219,711	4.4
Cost of inventories	**130,157**	**1.6**	162,537	3.2
Amortization of intangible assets	**136,496**	**1.6**	111,849	2.2
Others	**208,460**	**2.5**	183,585	3.6
Total cost of revenues	**4,655,744**	**55.8**	2,480,271	49.2

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 44.3% year-over-year to RMB3,692.0 million for the year ended December 31, 2019. Gross margin was 44.2% for the year ended December 31, 2019, as compared with 50.8% for the year ended December 31, 2018. The change in the gross margin was mainly due to the significant change of our revenue mix in 2019 compared to 2018.

Interest income. Interest income decreased by 21.6% from RMB200.8 million for the year ended December 31, 2018 to RMB157.5 million for the year ended December 31, 2019, reflecting lower interest income from bank deposits.

Other gains, net. We recorded net other gains of RMB453.2 million in 2019, compared to RMB338.9 million in 2018. Our other gains in 2019 primarily consisted of (i) a fair value gain of RMB273.0 million due to a change in the fair value of consideration liabilities related to the acquisition of NCM, and (ii) government subsidies of RMB110.1 million.

Selling and marketing expenses. Selling and marketing expenses increased by 60.4% year-over-year to RMB2,073.9 million for the year ended December 31, 2019. The increase was primarily due to (i) greater marketing expenses to promote our online reading content including for free-to-read content, (ii) greater marketing expenses to promote our self-operated mobile game, and (iii) the full year consolidation of selling and marketing expenses from NCM related to films and drama series. As a percentage of revenues, our selling and marketing expenses decreased to 24.8% for the year ended December 31, 2019 from 25.7% for the year ended December 31, 2018.

General and administrative expenses. General and administrative expenses increased by 39.1% year-over-year to RMB1,010.3 million for the year ended December 31, 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 research and development expenses, and (iii) the full year consolidation of NCM's business. As a percentage of revenues, our general and administrative expenses decreased to 12.1% for the year ended December 31, 2019 from 14.4% for the year ended December 31, 2018.

Net (provision for)/reversal of impairment losses on financial assets. The impairment loss on financial assets was in relation to the provision for doubtful receivables. In 2019, we accrued a provision for doubtful receivables of RMB24.6 million on a net basis.

Operating profit. As a result of the foregoing, we had an operating profit of RMB1,193.9 million for the year ended December 31, 2019, as compared with RMB1,115.0 million in the previous year. Operating margin was 14.3% for the year ended December 31, 2019, as compared with 22.1% in the previous year.

Finance costs. Finance costs increased by 16.2% year-over-year to RMB172.6 million for the year ended December 31, 2019. The increase was mainly due to higher interest expenses incurred during 2019.

Share of net profit of associates and joint ventures. Our share of net profit of associates and joint ventures increased by 42.4% from RMB111.3 million in 2018 to RMB158.5 million in 2019, principally due to greater profits generated from our investee companies during 2019.

Income tax expense. Income tax expense decreased from RMB165.4 million in 2018 to RMB67.7 million in 2019, mainly due to a higher portion of profits were generated from subsidiaries with lower income tax rates in 2019.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 20.4% from RMB910.6 million in 2018 to RMB1,096.0 million in 2019.

Segment Information:

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, 2019 and 2018:

	Year ended December 31, 2019		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenues	**3,710,418**	**4,637,349**	**8,347,767**
Cost of revenues	**1,600,610**	**3,055,134**	**4,655,744**
Gross profit	**2,109,808**	**1,582,215**	**3,692,023**
Gross margin	**56.9%**	**34.1%**	**44.2%**

	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%

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
EBITDA[(1)]	**780,209**	739,275
Adjusted EBITDA[(2)]	**1,185,873**	944,460
Adjusted EBITDA margin[(3)]	**14.2%**	18.7%
Interest expense on borrowings	**166,521**	48,510
Net cash[(4)]	**5,139,316**	6,358,344
Capital expenditures[(5)]	**216,587**	183,123

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 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 years presented:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Operating profit	**1,193,907**	1,114,951
Adjustments:		
Interest income	**(157,539)**	(200,817)
Other gains, net	**(453,194)**	(338,910)
Depreciation of property, plant and equipment	**22,306**	17,874
Amortization of intangible assets	**174,729**	146,177
EBITDA	**780,209**	739,275
Adjustments:		
Share-based compensation	**141,569**	152,227
Expenditure related to acquisition	**264,095**	52,958
Adjusted EBITDA	**1,185,873**	944,460

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 year, 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 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. 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 years ended December 31, 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31, 2019					
		Adjustments				
	As reported	Share-based compensation	Net (gain) from investment and acquisition[1]	Amortization of intangible assets[2]	Tax effect	Non-GAAP
	(RMB'000, unless specified)					
Operating profit	**1,193,907**	**141,569**	**(133,715)**	**214,041**	**–**	**1,415,802**
Profit for the year	**1,112,134**	**141,569**	**(120,162)**	**214,041**	**(136,745)**	**1,210,837**
Profit attributable to equity holders of the Company	**1,095,953**	**141,569**	**(120,162)**	**213,990**	**(136,732)**	**1,194,618**
EPS ***(RMB per share)***						
– basic	**1.10**					**1.20**
– diluted	**1.09**					**1.19**
Operating margin	**14.3%**					**17.0%**
Net margin	**13.3%**					**14.5%**

	Year ended December 31, 2018					
		Adjustments				
	As reported	Share-based compensation	Net (gain) from investment and acquisition[1]	Amortization of intangible assets[2]	Tax effect	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	(280,857)	89,183	29,584	902,535
Profit attributable to equity holders of the Company	910,636	152,227	(280,857)	88,806	29,678	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%

Notes:

(1) During the year ended December 31, 2019, this item includes fair value gains on financial assets at fair value through profit or loss, and net gain related to acquisition of New Classics Media of RMB173.0 million. During the year ended December 31, 2018, this item includes fair value gains on financial assets at fair value through profit or loss, gains on deemed disposal of a subsidiary and net gain related to acquisition of New Classics Media of RMB54.5 million.

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

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets decreased from RMB27,834.6 million as of December 31, 2018 to RMB26,250.0 million as of December 31, 2019, while our total liabilities decreased from RMB9,419.6 million as of December 31, 2018 to RMB6,839.2 million as of December 31, 2019. Liabilities-to-assets ratio changed from 33.8% at the end of 2018 to 26.1% at the end of 2019.

As of December 31, 2019, the current ratio (the ratio of total current assets to total current liabilities) was 206.1% (2018: 216.4%).

As of December 31, 2019, our Group has pledged receivables of RMB324.2 million as security to certain bank borrowings (2018: RMB145.0 million).

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, 2019, our Group had net cash of RMB5,139.3 million, compared to RMB6,358.3 million as of December 31, 2018. The decrease in net cash in 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 December 31, 2019:

- Our gearing ratio was 6.7% (2018: 13.4%).

- Our total borrowings were RMB1,303.1 million, which were primarily denominated in RMB.

- Our unutilized banking facility was RMB1,644.8 million.

As of December 31, 2019 and 2018, our Group did not have any significant contingent liabilities.

As of December 31, 2019 and 2018, 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, 2019 totaled RMB561.0 million (2018: RMB417.9 million), representing a year-over-year increase of RMB143.1 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 during the years ended December 31, 2019 and 2018.

Employee

As of December 31, 2019, we had approximately 2,000 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 AND ISSUE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

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 RMB3,236.3 million in revenues and RMB548.6 million in profit attributable to equity holders of the company in 2019.

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 acquisition of 100% equity interest of NCM. Reference is also made to the announcement of the Company dated March 18, 2019 in respect of, among others, the adjustment under the Earn Out Mechanism for the year ended December 31, 2018. 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 RMB700.0 million for the year ended December 31, 2019. 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, 2019, was RMB537.8 million, which is less than the Reference Net Profit benchmark for the year ended December 31, 2019 by RMB162.2 million. Accordingly, the Earn Out Consideration for 2019 was deducted from RMB2,042.0 million to RMB1,253.6 million. Earn out Consideration was adjusted under the Earn Out Mechanism such that a total number of 3,444,870 Consideration Shares would be issued ("2019 Earn Out Issue") and a total cash consideration of RMB1,021.0 million would be paid to the Management Vendors in accordance with the terms of the Share Purchase Agreement.

Set out below for illustrative purposes is the shareholding structure of the Company as of the date of this announcement and immediately upon the completion of the 2019 Earn Out Issue:

	As of the date of this announcement		Immediately upon the completion of the 2019 Earn Out Issue	
Shareholders	**Number of Shares**	**Approximate % of issued Shares**	**Number of Shares**	**Approximate % of issued Shares**
Tencent	577,643,604	57.06%	577,643,604	56.87%
Management Vendors				
– Founder SPV	22,955,882	2.27%	25,047,972	2.47%
– Qu SPV	10,318,073	1.02%	11,258,413	1.11%
– Executive SPV	4,525,582	0.45%	4,938,022	0.49%
Other Shareholders	396,893,705	39.21%	396,893,705	39.07%
Total	1,012,336,846	100%	1,015,781,716	100%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019

		Year ended December 31,	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenues	*4*	**8,347,767**	5,038,250
Cost of revenues	*5*	**(4,655,744)**	(2,480,271)
Gross profit		**3,692,023**	2,557,979
Interest income	*8*	**157,539**	200,817
Other gains, net	*6*	**453,194**	338,910
Selling and marketing expenses	*5*	**(2,073,937)**	(1,293,107)
General and administrative expenses	*5*	**(1,010,282)**	(726,470)
Net (provision for)/reversal of impairment losses on financial assets		**(24,630)**	36,822
Operating profit		**1,193,907**	1,114,951
Finance costs	*7*	**(172,618)**	(148,489)
Share of net profit of associates and joint ventures	*13*	**158,508**	111,339
Profit before income tax		**1,179,797**	1,077,801
Income tax expense	*9*	**(67,663)**	(165,403)
Profit for the year		**1,112,134**	912,398
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of associates and joint ventures	*13*	**(10,502)**	(181)
Currency translation differences		**65,723**	430,076
Total comprehensive income for the year		**1,167,355**	1,342,293

		Year ended December 31,	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Profit attributable to:			
– Equity holders of the Company		**1,095,953**	910,636
– Non-controlling interests		**16,181**	1,762
		1,112,134	912,398
Total comprehensive income attributable to:			
– Equity holders of the Company		**1,151,165**	1,340,538
– Non-controlling interests		**16,190**	1,755
		1,167,355	1,342,293
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	*10(a)*	**1.10**	1.01
– Diluted earnings per share	*10(b)*	**1.09**	1.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2019

		As of December 31,	
		2019	2018
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**41,521**	47,696
Right-of-use assets		**92,630**	–
Intangible assets	*12*	**12,168,799**	12,141,157
Investments in associates and joint ventures	*13*	**963,551**	680,918
Financial assets at fair value through profit or loss	*14*	**457,185**	444,137
Deferred income tax assets		**190,769**	95,559
Prepayments, deposits and other assets		**145,024**	147,501
		14,059,479	13,556,968
Current assets			
Inventories	*15*	**606,037**	129,693
Television series and film rights	*16*	**1,107,671**	2,857,056
Trade and notes receivables	*17*	**3,366,078**	1,830,396
Prepayments, deposits and other assets		**668,351**	609,900
Financial assets at fair value through profit or loss	*14*	**-**	26,804
Restricted bank deposits		**94,787**	-
Term deposits		**415,752**	481,561
Cash and cash equivalents		**5,931,849**	8,342,228
		12,190,525	14,277,638
Total assets		**26,250,004**	27,834,606

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**642**	649
Shares held for RSU scheme		**(19)**	(21)
Share premium		**16,161,809**	16,456,555
Other reserves		**1,135,387**	898,150
Retained earnings		**2,098,748**	1,048,145
		19,396,567	18,403,478
Non-controlling interests		**14,244**	11,567
Total equity		**19,410,811**	18,415,045
LIABILITIES			
Non-current liabilities			
Borrowings	18	**-**	380,000
Lease liabilities		**34,371**	-
Deferred income tax liabilities		**322,631**	449,808
Deferred revenue	4	**33,462**	39,277
Financial liabilities at fair value through profit or loss		**535,082**	1,954,165
		925,546	2,823,250
Current liabilities			
Borrowings	18	**1,303,072**	1,385,445
Lease liabilities		**55,558**	-
Trade payables	19	**1,020,676**	1,131,067
Other payables and accruals		**1,489,689**	1,818,151
Deferred revenue	4	**717,708**	1,005,319
Current income tax liabilities		**205,413**	65,375
Financial liabilities at fair value through profit or loss		**1,121,531**	1,190,954
		5,913,647	6,596,311
Total liabilities		**6,839,193**	9,419,561
Total equity and liabilities		**26,250,004**	27,834,606

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019

	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, 2019	649	16,456,555	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045
Comprehensive income								
Profit for the year	–	–	–	–	1,095,953	1,095,953	16,181	1,112,134
Other comprehensive income								
– Share of other comprehensive loss of associates and joint ventures	–	–	–	(10,502)	–	(10,502)	–	(10,502)
– Currency translation differences	–	–	–	65,714	–	65,714	9	65,723
Total comprehensive income for the year	–	–	–	55,212	1,095,953	1,151,165	16,190	1,167,355
Transaction with owners								
Share-based compensation expenses	–	–	–	141,569	–	141,569	–	141,569
Liquidation in a non-wholly owned subsidiary	–	–	–	–	–	–	(1,641)	(1,641)
Repurchase and cancellation of shares	(7)	(245,828)	–	–	–	(245,835)	–	(245,835)
Transfer of vested RSUs	–	(48,918)	2	–	–	(48,916)	–	(48,916)
Dividends paid	–	–	–	–	–	–	(7,981)	(7,981)
Capital injection	–	–	–	–	–	–	6,200	6,200
Acquisition of non-controlling interests	–	–	–	(4,894)	–	(4,894)	(10,091)	(14,985)
Profit appropriations to statutory reserves	–	–	–	45,350	(45,350)	–	–	–
Transactions with owners in their capacity for the year	(7)	(294,746)	2	182,025	(45,350)	(158,076)	(13,513)	(171,589)
As of December 31, 2019	642	16,161,809	(19)	1,135,387	2,098,748	19,396,567	14,244	19,410,811

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								
Other comprehensive income	–	–	–	–	910,636	910,636	1,762	912,398
– 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 CASH FLOWS
For the year ended December 31, 2019

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**782,504**	917,678
Net cash flows used in investing activities	**(1,294,971)**	(176,628)
Net cash flows used in financing activities	**(1,929,767)**	(179,524)
Net (decrease)/increase in cash and cash equivalents	**(2,442,234)**	561,526
Cash and cash equivalents at the beginning of the year	**8,342,228**	7,502,430
Exchange gains on cash and cash equivalents	**31,855**	278,272
Cash and cash equivalents at the end of the year	**5,931,849**	8,342,228

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 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"). 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 Financial Information is presented in Renminbi ("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 and contingent consideration payables) 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, 2019:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
IFRSs (amendment)	Annual Improvements to IFRS Standards 2015 – 2017 Cycle
Interpretation 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting IFRS 16. 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. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2.1.4 New standards and interpretations not yet adopted

The following new standards and interpretations have not come into effect for the year beginning January 1, 2019, and have not been early adopted by the Group in preparing the consolidated financial statements. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of material	January 1, 2020
Amendments to IFRS 3	Definition of a business	January 1, 2020
IFRS 17	Insurance contracts	January 1, 2020

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Group recognized 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%.

(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 Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

	As of 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 recognized on a straight-line basis as expense	**(2,226)**
Less: low-value leases recognized on a straight-line basis as expense	**(218)**
Lease liability recognized as of January 1, 2019	**135,436**
Of which are:	
Current lease liabilities	**63,382**
Non-current lease liabilities	**72,054**

(iii) Measurement of right-of-use assets

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 recognized 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.

(iv) Adjustments recognized in the consolidated statement of financial position on January 1, 2019

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.

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, 2019 and 2018, the chief executive officers of the Group have identified the following reportable segments:

- 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 December 31, 2019 and 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, 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 years ended December 31, 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 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, 2019 and 2018 is as follows:

	Year ended December 31, 2019		
	Online business	**Intellectual property operations and others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenues	**3,710,418**	**4,637,349**	**8,347,767**
Cost of revenues	**1,600,610**	**3,055,134**	**4,655,744**
Gross profit	**2,109,808**	**1,582,215**	**3,692,023**

	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

The reconciliation of gross profit to profit before income tax of individual period during the year ended 2019 and 2018 is shown in the consolidated statement of comprehensive income.

As of December 31, 2019 and 2018, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in the PRC.

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:

Year ended December 31, 2019	**Online business**			**Intellectual property operations and others**		
	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	**2,171,729**	**667,580**	**449,249**	**3,491,699**	**196,978**	**6,977,235**
– Over time	**253,413**	**168,447**	**–**	**931,405**	**17,267**	**1,370,532**
	2,425,142	**836,027**	**449,249**	**4,423,104**	**214,245**	**8,347,767**

Year ended December 31, 2018	Online business			Intellectual property operations and others		
	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

4.2 Liabilities related to contracts with customers

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Deferred revenue		
Online business	**300,091**	208,748
Intellectual property operations and others	**451,079**	835,848
	751,170	1,044,596

(a) Significant changes in deferred revenue

Deferred revenue mainly comprises 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, 2019 and 2018; 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 recognized in relation to deferred revenue

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognized that was included in the deferred revenue balance at the beginning of the year:		
Online business	**208,748**	300,615
Intellectual property operations and others	**574,245**	110,994
	782,993	411,609

5 EXPENSES BY NATURE

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Production costs of television series and film rights	**1,901,068**	210,704
Promotion and advertising expenses	**1,537,689**	851,836
Content costs	**1,477,077**	1,529,313
Employee benefits expenses	**866,936**	671,938
Platform distribution costs	**569,497**	219,711
Payment handling costs	**329,693**	283,125
Impairment loss on television series and film rights	**177,636**	300
Amortization of intangible assets	**174,729**	146,177
Game development outsourcing costs	**88,728**	8,765
Professional service fees	**87,494**	73,110
Cost of physical inventories sold	**69,894**	98,764
Depreciation of right-of-use assets	**61,451**	–
Provision for physical inventory obsolescence	**60,263**	63,773
Bandwidth and server custody fees	**58,073**	55,287
Animation product costs	**55,353**	62,272
Travelling, entertainment and general office expenses	**54,346**	45,132
Depreciation of property, plant and equipment	**22,306**	17,874
Write-down of prepayments to directors, actors and writers	**20,000**	–
Auditors' remuneration		
– Audit services	**9,074**	7,854
– Non-audit services	**1,058**	1,039
Logistic expenses	**7,817**	9,155
Expense relating to short-term leases	**4,728**	–
Operating lease rentals	**–**	58,494
Others	**105,053**	85,225
	7,739,963	4,499,848

6 OTHER GAINS, NET

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Fair value gain on financial liabilities at fair value through profit or loss	**273,003**	108,938
Subsidies and tax rebates	**110,107**	44,793
Gain on copyright infringements	**80,545**	6,683
Gain on disposal of certain portion of film rights	**10,647**	–
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(11,782)**	94,810
Impairment provision for investment in an associate	**(17,400)**	(7,170)
Gain on disposals of subsidiaries	**–**	127,911
Expenditure related to acquisition	**–**	(37,755)
Others, net	**8,074**	700
	453,194	338,910

7 FINANCE COSTS

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Interest expenses on borrowings	**166,521**	48,510
Interest expenses on lease liabilities	**4,801**	–
Foreign exchange loss, net	**747**	96,557
Guarantee expense	**549**	3,422
	172,618	148,489

8 INTEREST INCOME

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Interest income on bank deposits	**157,539**	200,817

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, 2019.

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, 2019 and 2018 according to the applicable CIT Law.

A subsidiary of the Group in the PRC was approved as Software Enterprise (being software enterprise qualified for a doublelayered certification), and accordingly, it was subject to a reduced preferential CIT rate of 12.5% for the year ended December 31, 2018, according to the applicable CIT Law.

According to the relevant tax circulars issued by the PRC tax authorities, a subsidiary of the Group is entitled to certain tax concessions and it is exempt from CIT during the year from its incorporation to December 31, 2020.

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Current tax	**290,050**	147,566
Deferred income tax	**(222,387)**	17,837
Income tax expense	**67,663**	165,403

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, 2019 (2018: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analyzed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**1,179,797**	1,077,801
Share of profit of investments accounted for using equity method	**(158,508)**	(111,339)
Tax calculated at a tax rate of 25%	**255,322**	241,616
Effects of preferential tax rates applicable to different subsidiaries of the Group	**(126,363)**	(78,338)
Effects of unrecognized deferred income tax assets	**32,027**	17,920
Non-deductible expenses less non-taxable income	**(46,955)**	14,320
Research and development tax credit	**(46,368)**	(30,115)
Income tax expense	**67,663**	165,403

10 EARNINGS PER SHARE

(a) Basic earnings per share for the years ended December 31, 2019 and 2018 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,	
	2019	2018
Net profit attributable to the equity holders of the Company *(RMB'000)*	**1,095,953**	910,636
Weighted average number of ordinary shares in issue *(thousand)*	**998,066**	898,583
Basic earnings per share *(expressed in RMB per share)*	**1.10**	1.01

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

For the years ended December 31, 2019 and 2018, the Company has the dilutive potential ordinary shares of RSUs granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

	Year ended December 31,	
	2019	2018
Profit attributable to the equity holders of the Company *(RMB'000)*	**1,095,953**	910,636
Impact of a joint venture's and an associate's potential ordinary shares *(RMB'000)*	**(326)**	(1,550)
Net profit used to determine diluted earnings per share *(RMB'000)*	**1,095,627**	909,086
Weighted average number of ordinary shares in issue *(thousand)*	**998,066**	898,583
Effect of deemed issuance of ordinary shares in connection with the acquisition of New Classics Media *(thousand)*	**3,445**	–
Adjustments for share-based compensation – RSUs *(thousand)*	**6,409**	12,177
Weighted average number of ordinary shares for diluted earnings per share *(thousand)*	**1,007,920**	910,760
Diluted earnings per share *(expressed in RMB per share)*	**1.09**	1.00

11 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2019 (2018: Nil).

12 INTANGIBLE ASSETS

	Goodwill *RMB'000*	Non-compete agreements *RMB'000*	Trademarks *RMB'000*	Copyrights of contents *RMB'000*	Writers' contracts *RMB'000*	Distribution channel relationships *RMB'000*	Customers relationships *RMB'000*	Software *RMB'000*	Domain names *RMB'000*	Total *RMB'000*
At December 31, 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	–	–	–	198,334	–	–	–	3,003	–	201,337
Amortization	–	(6,100)	(27,196)	(122,771)	(14,667)	(800)	(21)	(2,949)	(225)	(174,729)
Liquidation of a subsidiary	–	–	–	(3)	–	–	–	–	–	(3)
Currency translation differences	–	–	–	1,036	–	–	–	1	–	1,037
Closing net book amount as of December 31, 2019	10,653,325	17,283	1,105,697	349,847	36,666	–	–	3,670	2,311	12,168,799

	Goodwill *RMB'000*	Non-compete agreements *RMB'000*	Trademarks *RMB'000*	Copyrights of contents *RMB'000*	Writers' contracts *RMB'000*	Distribution channel relationships *RMB'000*	Customers relationships *RMB'000*	Software *RMB'000*	Domain names *RMB'000*	Total *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

During the year ended December 31, 2019, amortization expense of approximately RMB136,496,000 (2018: RMB111,849,000), RMB2,315,000 (2018: RMB1,374,000) and RMB35,918,000 (2018: RMB32,954,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

As of December 31, 2019, the goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation ("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 film business" hereafter).

Impairment tests for goodwill

As of December 31, 2019, goodwill is allocated to the Group's CGUs identified as follows:

	As of December 31, 2019
	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, 2019 and 2018 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, 2019 and 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 Group has engaged independent external valuers for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill was recognized as of December 31, 2019 and 2018.

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

2019	**Online business**	**Acquired TV and film business**
Gross margin (%)	**From 50.8% to 59.1%**	**From 37.1% to 48.8%**
Annual growth rate (%)	**From 10.3% to 19.1%**	**From 3.8% to 29.1%**
Pre-tax discount rate (%)	**21.6%**	**18.8%**

2018	**Online business**	**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 amount to exceed the recoverable amount.

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, 2019 and 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment assessment, 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 amounts of these trademarks are determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for a six-year period. As of December 31, 2019, key assumptions for the trademarks with indefinite life used for value-in-use calculations include average annual revenue growth rate of 3.8% to 29.1% (2018: 3.8% to 77.7%) and royalty saving rate of 2% (2018: 2%). As of December 31, 2019, the discount rate used of 18.8% (2018: 17.9%) is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry.

13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Investments in associates (a)	**469,943**	307,794
Investments in joint ventures (b)	**493,608**	373,124
	963,551	680,918

(a) Investments in associates

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**307,794**	184,396
Additions	**224,066**	123,776
Impairment provision	**(17,400)**	(7,170)
Share of net profit of associates	**23,422**	8,443
Share of other comprehensive loss of associates	**(41)**	(181)
Liquidation of associates	**(70,666)**	–
Currency translation differences	**2,768**	(1,470)
At the end of the year	**469,943**	307,794

(b) Investments in joint ventures

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**373,124**	157,918
Additions	**85,187**	163,000
Dividend from a joint venture	**(90,000)**	(45,205)
Disposals	**–**	(5,485)
Share of net profit of joint ventures	**135,086**	102,896
Share of other comprehensive loss of joint ventures	**(10,461)**	–
Currency translation differences	**672**	–
At the end of the year	**493,608**	373,124

(c) Joint operations

The Group participated in a number of TV series and film 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 amortized cost or at FVOCI;
- equity investments that are held for trading; and
- equity investments for which the entity has not elected to recognize fair value gains or losses through other comprehensive income.

Financial assets mandatorily measured at FVPL include the following:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Included in non-current assets:		
Investment in redeemable shares of associates *(Note a)*	**429,842**	444,137
Investments in unlisted entities	**12,000**	–
Investment in a listed entity	**15,343**	–
	457,185	444,137
Included in current assets:		
Derivative financial assets *(Note b)*	**–**	26,804
	457,185	470,941

Movement of FVPL is analysed as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**470,941**	–
Adjustment on adoption of IFRS 9	**–**	304,594
Additions	**58,287**	71,589
Business combination	**–**	8,992
Changes in fair value *(Note 6)*	**(11,782)**	94,810
Conversion of an associate's preferred shares to ordinary shares	**(23,000)**	–
Disposals	**–**	(8,992)
Settlement of forward foreign currency contract	**(36,911)**	–
Currency translation differences	**(350)**	(52)
At the end of the year	**457,185**	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. In 2017, the Group made 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").

In 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 interest of the investee on an outstanding and fully converted basis.

In 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 interest of the investee on an outstanding and fully converted basis. On April 4, 2019, the Group fully converted its preferred shares into ordinary shares on a 1:1 basis. As of December 31, 2019, the Group held 25.22% equity interest of the investee company.

In 2019, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in Thailand, to subscribe for its ordinary shares and preferred shares at a total consideration of approximately USD5,947,000 and USD4,564,000, respectively, (equivalent to approximately RMB41,945,000 and RMB32,193,000, respectively), which represented approximately 13.4% and 6.6% equity interest of the investee on an outstanding and fully converted basis. The investment in ordinary shares of the above mentioned investee is accounted for as "investment in associates" while investment in its preferred shares is accounted for as "FVPL".

These aforementioned investments held by the Group 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 financial assets at fair value through profit or loss.

As of December 31, 2019, the Group 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 45% as of December 31, 2019 (2018: 40%).

As of December 31, 2019, the Group 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, 2019 (2018: 40%).

With respects to the Group's new investments in 2019, 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, derivative financial assets of approximately RMB26,804,000 were 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. The derivative financial assets, which measured at fair value through profit or loss, have been settled on March 19, 2019. During the year ended December 31, 2019, fair value gain amounting to approximately RMB10,107,000 (2018: fair value loss amounting to approximately RMB10,790,000) was recognized in the consolidated statement of comprehensive income.

(b) Amounts recognized in profit or loss

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

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Fair value gain on financial assets at fair value through profit or loss		
– Fair value (loss)/gain of investment in redeemable shares of associates	**(23,138)**	105,600
– Fair value gain/(loss) of derivative financial assets	**10,107**	(10,790)
– Fair value gain of investment in a listed entity	**1,249**	–

15 INVENTORIES

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Adaptation rights and scripts	**509,753**	–
Raw materials	**9,308**	13,185
Work in progress	**12,806**	19,542
Inventories in warehouse	**81,073**	87,432
Inventories held with distributors on consignment	**88,415**	109,231
Others	**7,026**	9,335
	708,381	238,725
Less: provision for inventory obsolescence	**(102,344)**	(109,032)
	606,037	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 year ended December 31, 2019, the cost of inventories, including provision for inventory obsolescence, recognized as expense and included in "cost of revenues" amounted to approximately RMB447,040,000 (2018: RMB162,537,000).

16 TELEVISION SERIES AND FILM RIGHTS

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Television series and film rights		
– under production	**655,723**	1,416,202
– completed	**451,948**	731,363
– adaptation rights and scripts	**–**	709,491
	1,107,671	2,857,056

	Adaptation rights and scripts *RMB'000*	**Under production** *RMB'000*	**Completed** *RMB'000*	**Total** *RMB'000*
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	**–**	**1,017,759**	**1,475**	**1,019,234**
Transfer from under production to completed	**–**	**(1,853,167)**	**1,853,167**	**–**
Transfer from adaptation rights and scripts (recorded in "inventories") to under production	**–**	**74,929**	**–**	**74,929**
Recognized in cost of revenue *(Note b)*	**–**	**–**	**(2,134,057)**	**(2,134,057)**
As of December 31, 2019 *(Note c)*	**–**	**655,723**	**451,948**	**1,107,671**

	Adaptation rights and scripts *RMB'000*	Under production *RMB'000*	Completed *RMB'000*	Total *RMB'000*
As of January 1, 2018	–	–	–	–
Additions	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 adaptation rights and scripts to under production	(74,526)	74,526	–	–
Recognized in cost of revenue *(Note b)*	(300)	–	(272,976)	(273,276)
As of December 31, 2018 *(Note c)*	709,491	1,416,202	731,363	2,857,056

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) During the year ended December 31, 2019, impairment loss of approximately RMB177,636,000 was provided for the Group's completed television series and film rights (2018: RMB300,000 for the Group's adaptation rights and scripts).

(c) 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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**3,431,613**	1,849,268
Notes receivable	**697**	200
	3,432,310	1,849,468
Less: allowance for impairment of trade receivables	**(66,232)**	(19,072)
	3,366,078	1,830,396

Beginning from January 1, 2018, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

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

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Trade and notes receivables		
– Up to 3 months	**2,648,932**	978,853
– 3 to 6 months	**146,655**	688,166
– 6 months to 1 year	**308,289**	95,986
– 1 to 2 years	**239,494**	29,608
– Over 2 years	**22,708**	37,783
	3,366,078	1,830,396

The carrying amounts of trade receivables include approximately RMB324,230,000 receivables which are pledged for certain bank borrowings (see Note 18).

18 BORROWINGS

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Non-current		
Unsecured		
Bank borrowings *(Note a)*	**–**	200,000
Other borrowings *(Note b)*	**–**	180,000
Total non-current borrowings	**–**	380,000
Current		
Unsecured		
Bank borrowings *(Note a)*	**1,102,517**	1,269,550
Secured		
Bank borrowings *(Note c)*	**200,555**	115,895
Total current borrowings	**1,303,072**	1,385,445
Total borrowings	**1,303,072**	1,765,445

Notes:

(a) As of December 31, 2019, the Group's unsecured long-term bank borrowings consist of RMB200,000,000 variable rate borrowings bearing floating interest rates of People's Bank of China's loan prime rate plus 0.95% per annum. These long-term bank borrowings were guaranteed by Mr. Cao Huayi (chief executive officer of New Classics Media) (or referred to as "Mr. Cao"). As of December 31, 2019, the borrowing balance of RMB200,000,000 were reclassified to current liabilities as the borrowings will be repayable within 12 months after December 31, 2019.

As of December 31, 2018, the Group's unsecured 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 long-term bank borrowings were guaranteed by Mr. Cao. As of December 31, 2018, the borrowing balance of RMB100,000,000 were reclassified to current liabilities as the borrowings would be repayable within 12 months after December 31, 2018, and had been repaid during the year ended December 31, 2019.

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 would be repayable within 12 months after December 31, 2018. These borrowings had been repaid during the year ended December 31, 2019.

As of December 31, 2019, the Group's unsecured short-term bank borrowings consist of RMB630,000,000 fixed rate borrowings, bearing interests of 3.6% to 3.915% per annum, and approximately RMB272,517,000 variable rate borrowings bearing interest rates ranging from 5.046% to 5.220%, among which approximately RMB272,517,000 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 RMB964,550,000 variable rate borrowings bearing interest rates ranging from 4.275% to 5.4375%. The short-term bank borrowings of RMB628,550,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group. These borrowings had been repaid during the year ended December 31, 2019.

(b) As of December 31, 2018, the unsecured long-term other borrowing of RMB180,000,000 was borrowed from a third party trust company, bearing a fixed interest rate of 9% per annum and was guaranteed by Mr. Cao and a subsidiary of the Group. This borrowing had been repaid in April 2019.

(c) As of December 31, 2019, the Group's secured short-term bank borrowings consist of approximately RMB200,555,000 borrowings bearing floating interest rates of People's Bank of China's loan prime rate plus 0.883% to 0.933% per annum. These short-term bank borrowings of approximately RMB80,555,000 were secured by USD9,000,000 and RMB32,000,000 restricted bank deposits. The other short-term bank borrowings of RMB120,000,000 were guaranteed by Mr. Cao and/or other subsidiaries of the Group, and were secured by certain receivables (see Note 17).

    As of 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 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 would be repayable within 12 months after December 31, 2018, and had been repaid during the year ended December 31, 2019.

As of December 31, 2019 and 2018, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**1,303,072**	1,385,445
Between 1 and 2 years	**–**	380,000
	1,303,072	1,765,445

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,	
	2019	2018
	RMB'000	*RMB'000*
– Up to 3 months	**775,350**	705,318
– 3 to 6 months	**115,631**	259,006
– 6 months to 1 year	**46,293**	39,328
– 1 to 2 years	**43,990**	79,383
– Over 2 years	**39,412**	48,032
	1,020,676	1,131,067

20 SHARE-BASED PAYMENTS

(a) Share-based compensation plans of Tencent

Tencent operates a number of share-based compensation plans 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	–

(b) Share-based compensation plan of the Group

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

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

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

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 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. 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.

On April 10, 2019, July 11, 2019 and November 5, 2019, 235,000, 158,000 and 5,297,000 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.

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2019	**17,477,000**
Granted	**5,690,000**
Forfeited	**(1,293,500)**
Vested	**(6,659,400)**
Outstanding balance as of December 31, 2019	**15,214,100**
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

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

(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, 2019, 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".

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). The following table set forth the Group's intended timetable for use of proceeds as at December 31, 2019.

Intended use of net proceeds		Allocation of net proceeds	Amount of net proceeds utilized up to December 31, 2019	Balance of net proceeds unutilized as at December 31, 2019	Intended timetable for use of the unutilized net proceeds
			(RMB in millions)		
(i)	Expanding the Group's online reading business and sales and marketing activities	1,843.4	1,015.1	828.3	By/before December 31, 2020
(ii)	Expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles	1,843.4	1,351.5	491.9	By/before December 31, 2020
(iii)	Funding our potential investments, acquisitions and strategic alliances	1,843.4	1,843.4	0	Not applicable
(iv)	Working capital and general corporate purposes	614.5	614.5	0	Not applicable

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

The Company did not have any material investment, acquisitions and disposals of the Group during the year ended December 31, 2019.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2019 (2018: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

For the year ended December 31, 2019, the Company purchased 10,217,400 Shares on the Stock Exchange for an aggregate consideration of HKD272,202,316.84 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			
Date for purchase	**Highest price paid** *HKD*	**Lowest price paid** *HKD*	**No. of shares purchased**	**Aggregate consideration paid** *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
August 13, 2019	26.05	23.75	2,000,000	49,760,620.00
August 14, 2019	24.75	23.85	500,000	12,064,510.00
August 15, 2019	24.45	23.15	476,600	11,437,380.00
August 16, 2019	24.85	24.20	200,000	4,959,560.00
August 19, 2019	25.15	24.20	200,000	4,903,540.00
August 20, 2019	25.30	25.00	155,200	3,920,580.00
August 21, 2019	25.40	25.05	103,000	2,600,920.00
August 22, 2019	25.25	25.05	124,600	3,142,190.00
August 23, 2019	25.65	24.45	200,000	5,076,680.00
August 26, 2019	25.10	24.40	159,400	3,952,790.00
August 27, 2019	24.80	23.55	400,000	9,569,150.00
August 28, 2019	24.45	24.05	93,400	2,264,160.00

Date for purchase	Purchase consideration per share Highest price paid *HKD*	Lowest price paid *HKD*	No. of shares purchased	Aggregate consideration paid *HKD*
August 29, 2019	23.90	23.40	200,000	4,724,120.00
August 30, 2019	24.25	23.95	157,600	3,796,440.00
September 2, 2019	24.35	23.90	84,800	2,059,670.00
September 3, 2019	24.90	24.00	200,000	4,956,040.00
September 4, 2019	25.40	24.65	150,000	3,772,660.00
September 5, 2019	25.60	25.10	150,000	3,813,390.00
September 6, 2019	25.70	25.10	150,000	3,835,520.00
September 9, 2019	25.40	25.20	150,000	3,799,140.00
September 10, 2019	26.40	25.20	66,600	1,687,160.00
September 11, 2019	26.70	26.15	94,200	2,498,240.00
September 12, 2019	26.95	26.40	94,000	2,515,500.00
September 16, 2019	27.25	26.30	120,000	3,231,160.00
September 17, 2019	26.80	25.75	120,000	3,165,110.00
September 18, 2019	26.85	26.20	92,000	2,434,460.00
September 19, 2019	28.00	26.95	100,000	2,722,240.00
September 23, 2019	26.80	26.20	76,000	2,013,505.00
September 24, 2019	26.40	25.95	53,600	1,401,700.00
September 25, 2019	25.90	25.65	100,000	2,575,460.00
September 26, 2019	26.40	26.05	100,000	2,622,390.00
September 27, 2019	27.40	26.20	100,000	2,702,680.00
September 30, 2019	27.00	26.25	73,600	1,953,790.00
October 2, 2019	26.80	26.45	41,800	1,113,050.00
October 3, 2019	26.45	26.05	100,000	2,623,320.00
October 8, 2019	26.80	26.20	77,000	2,041,400.00
October 9, 2019	26.15	25.85	80,000	2,075,000.00
October 10, 2019	26.55	25.70	71,200	1,864,150.00
October 11, 2019	27.00	26.50	100,000	2,670,210.00
October 16, 2019	28.50	27.95	52,000	1,476,940.00
October 29, 2019	31.50	30.55	100,000	3,111,140.00
October 31, 2019	31.10	30.70	82,000	2,528,340.00
November 1, 2019	30.15	29.55	100,000	2,982,240.00
November 5, 2019	31.10	30.25	100,000	3,077,300.00

Date for purchase	Purchase consideration per share Highest price paid *HKD*	Lowest price paid *HKD*	No. of shares purchased	Aggregate consideration paid *HKD*
November 7, 2019	31.60	30.90	99,000	3,104,110.00
November 11, 2019	30.40	29.95	82,400	2,487,530.00
November 12, 2019	31.85	29.85	100,000	3,080,580.00
November 13, 2019	31.40	30.60	100,000	3,101,540.00
November 14, 2019	32.00	30.75	100,000	3,138,450.00
November 15, 2019	32.20	31.40	48,400	1,540,160.60
November 20, 2019	32.40	31.80	96,000	3,081,590.40
November 21, 2019	32.20	31.40	100,000	3,190,490.00
November 26, 2019	31.45	31.00	100,000	3,117,900.24
November 27, 2019	31.30	30.75	100,000	3,088,350.00
November 28, 2019	30.60	30.05	120,000	3,631,740.00
November 29, 2019	30.60	29.65	100,000	3,012,570.00
December 2, 2019	30.40	29.85	100,000	3,010,650.00
December 3, 2019	30.05	29.70	100,000	2,995,770.00
December 4, 2019	30.00	29.20	100,000	2,956,210.00
December 5, 2019	29.75	28.75	100,000	2,918,790.00
December 6, 2019	29.80	29.20	98,400	2,902,996.80
December 9, 2019	30.50	30.00	79,000	2,396,480.80
Total:			10,217,400	272,202,316.84

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended December 31, 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 year ended December 31, 2019, the Company has complied with all applicable code provisions of the CG Code.

Model Code for Dealing in Securities by Directors

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, 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, 2019.

Annual General Meeting

The annual general meeting (the "AGM") will be held on Monday, May 25, 2020. 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 Wednesday, May 20, 2020 to Monday, May 25, 2020, 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 Tuesday, May 19, 2020.

Audit Committee

The Audit Committee, together with the Board and the Auditor has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2019. The Audit Committee had also reviewed the accounting principles and practices adopted by the Group and the effectiveness of the risk management and internal control systems of the Company, and considered the risk management and internal control systems to be effective and adequate.

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, 2019 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 Announcement and Annual Report

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 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, March 17, 2020

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. Cao Huayi, Ms. Chen Fei and Mr. Cheng Yun Ming Matthew 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 25, 2020;
"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;

"New Classics Media" or "NCM"	New Classics Media Holdings Limited (previously known as "Qiandao Lake Holdings Limited"), a company established in Cayman Islands on May 18, 2018 and whose 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 year ended December 31, 2019;
"RMB"	the lawful currency of the PRC;
"RSU(s)"	restricted stock unit(s);
"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.