

# 阅文集团

CHINA LITERATURE

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

## GLOBAL OFFERING



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# IMPORTANT

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

# 阅文集团

## CHINA LITERATURE LIMITED

### 阅文集团

(incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

|  |   |   |
|--|---|---|
| Number of Offer Shares under the Global Offering | : | 151,371,800 Shares (comprising 135,962,710 New Shares and 15,409,090 Sale Shares) (subject to the Over-allotment Option)  |
| Number of Hong Kong Offer Shares                 | : | 15,137,200 New Shares (subject to reallocation)   |
| Number of International Offer Shares             | : | 136,234,600 Shares (including 15,409,090 Sale Shares and 7,568,600 Reserved Shares under the Preferential Offering) (subject to reallocation and the Over-allotment Option) |
| Maximum Offer Price                              | : | HK\$55.00 per Share plus brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund)  |
| Nominal value                                    | : | US\$0.0001 per Share  |
| Stock code                                       | : | 772   |

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#### Joint Bookrunners and Joint Lead Managers

中信建投國際  
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China Renaissance

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招銀國際  
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#### Joint Lead Manager

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A copy of this document, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix V to this document, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, October 31, 2017 (Hong Kong time) and, in any event, not later than Tuesday, November 7, 2017 (Hong Kong time). The Offer Price will be not more than HK\$55.00 and is currently expected to be not less than HK\$48.00. If, for any reason, the Offer Price is not agreed by Tuesday, November 7, 2017 (Hong Kong time) among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and our Company, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in The Standard (in English) and Sing Tao Daily (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See the section headed "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination" in this document.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk Factors" in this document. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Wednesday, November 8, 2017 (Hong Kong time). Such grounds are set out in the section headed "Underwriting" in this document. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

October 26, 2017

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Hong Kong Public Offering and the Preferential Offering, we will issue an announcement in Hong Kong to be published in English in The Standard and in Chinese in Sing Tao Daily.* <sup>(1)</sup>

Despatch of **BLUE** Application Forms to Qualifying

Tencent Shareholders . . . . . on Thursday, October 26, 2017

Hong Kong Public Offering and Preferential Offering  
commence and **WHITE** and **YELLOW** Application

Forms available from . . . . . 9:00 a.m. on Thursday, October 26, 2017

Latest time to complete electronic applications under

(i) **White Form eIPO** service and (ii) **Blue Form**

**eIPO** service through the designated website

[www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Tuesday, October 31, 2017

Application lists of the Hong Kong Public Offering

and the Preferential Offering open<sup>(3)</sup> . . . . . 11:45 a.m. on Tuesday, October 31, 2017

Latest time to lodge **WHITE**, **YELLOW** and

**BLUE** Application Forms . . . . . 12:00 noon on Tuesday, October 31, 2017

Latest time to give **electronic application**

**instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Tuesday, October 31, 2017

Latest time to complete payment of (i) **White Form**

**eIPO** applications and (ii) **Blue Form eIPO**

applications by effecting Internet banking transfer(s)

or PPS payment transfer(s) . . . . . 12:00 noon on Tuesday, October 31, 2017

Application lists of the Hong Kong Public Offering

and the Preferential Offering close . . . . . 12:00 noon on Tuesday, October 31, 2017

Expected Price Determination Date<sup>(5)</sup> . . . . . Tuesday, October 31, 2017

(1) Announcement of:

- the Offer Price;
- an indication of the level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering and the Preferential Offering; and
- the basis of allocation of the Hong Kong Offer Shares and the Reserved Shares

to be published in The Standard (in English) and

Sing Tao Daily (in Chinese) and on the websites of the

Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company

at <http://www.yuewen.com/> on or before<sup>(6)</sup> . . . . . Tuesday, November 7, 2017

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## EXPECTED TIMETABLE<sup>(1)</sup>

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(2) Announcement of results of allocations in the Hong Kong Public Offering and the Preferential Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at <http://www.yuewen.com/> (see paragraph headed "E. Publication of Results" in the section headed "How to Apply for Hong Kong Offer Shares and Reserved Shares") from . . . . . Tuesday, November 7, 2017

(3) Announcement of the Hong Kong Public Offering and the Preferential Offering containing (1) and (2) above to be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(7)</sup> and our Company at <http://www.yuewen.com/><sup>(8)</sup> from . . . . . Tuesday, November 7, 2017

Results of allocations for the Hong Kong Public Offering and the Preferential Offering will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a "search by ID" function from . . . . Tuesday, November 7, 2017

Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering and the Preferential Offering on or before<sup>(6)</sup> . . . . . Tuesday, November 7, 2017

Dispatch of **White Form** and **Blue Form** e-Refund payment instructions/refund cheques on or before<sup>(9)</sup> . . . . . Tuesday, November 7, 2017

Dealings in Shares on the Stock Exchange to commence on . . . . . 9:00 a.m. on Wednesday, November 8, 2017

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*Notes:*

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service or the **Blue Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Tuesday, October 31, 2017, the application lists will not open on that day. See the section headed "How to Apply for Hong Kong Offer Shares and Reserved Shares — D. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this document.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares and Reserved Shares — A. Applications for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this document.
- (5) The Price Determination Date is expected to be on or around Tuesday, October 31, 2017, and, in any event, not later than Tuesday, November 7, 2017, or such other date as agreed between parties. If, for any reason, the Offer Price is not agreed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and our Company by Tuesday, November 7, 2017, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.



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## EXPECTED TIMETABLE<sup>(1)</sup>

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- (6) Share certificates are expected to be issued and dispatched on Tuesday, November 7, 2017 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at around 8:00 a.m. on Wednesday, November 8, 2017. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely of their own risk.
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk).
- (8) None of the websites or any of the information contained on the website forms part of this document.
- (9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

**The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this document for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and Reserved Shares, and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.**

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### IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

*This document is issued by us solely in connection with the Hong Kong Public Offering, the Preferential Offering, the Hong Kong Offer Shares and the Reserved Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares and the Reserved Shares offered by this document pursuant to the Hong Kong Public Offering and the Preferential Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a public offering and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this document and the Application Forms to make your investment decision. The Hong Kong Public Offering and the Preferential Offering are made solely on the basis of the information contained and the representations made in this document. We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not contained nor made in this document and the Application Forms must not be relied on by you as having been authorised by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

#### Our Mission

Our mission is to create value for writers and to bring literature to people.

#### Our Company

Our Company is a subsidiary of Tencent. The listing of our Shares on the Main Board is a spin-off from Tencent.

We are a pioneer of China’s online literature market and operate the leading online literature platform as measured by the scale and quality of our writers, readers and literary content offerings, according to the Frost & Sullivan report. As of June 30, 2017, we had 6.4 million writers and 9.6 million literary works. In the six months ended June 30, 2017, average MAUs, calculated as the average of MAUs for each calendar month, on our platform and our self-operated channels on Tencent’s distribution platforms reached 191.8 million, comprising 179.3 million on mobile and 12.5 million on PC. Since the launch of the *qidian.com* website in 2002, we have been critical in establishing and developing the commercial model for online literature in China to drive the growth of the overall online literature industry. In December 2014, we acquired Cloudary with the intention to acquire its literary content and its several literary websites, and to create a leading market position in the online literature market in China with the largest user base, deepest writer pool, most comprehensive content library and strongest monetization capability. Today, our online literature platform connects major constituents of the online literature ecosystem, including writers, readers and content adaptation partners.

Our platform provides our online readers with easy access to our vast and diverse content library and enables a greater number of writers to create and publish original literary content online. To ensure the continued engagement of our readers and the activity of our writers, we enable and promote social interaction and direct engagement amongst our proprietary community of readers and writers. Additionally, we are able to extend the monetization lifecycle of our content for our writers through our intellectual property operations by managing and licensing our content for adaptation into other entertainment formats. As our readers, writers, content, and intellectual property operations are connected, each of their growth fuels a virtuous cycle that adds to the scalability and strength of our overall platform.

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## SUMMARY

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We operate a multi-layered content distribution network and provide our content directly to the largest online audience for original online literary works in China. Among our products, our flagship product, *QQ Reading*, is a unified mobile content aggregation and distribution platform, while other branded products on mobile and PC focus more specifically on individual genres and their respective user followings. Through our strategic partner, Tencent, we have exclusive and direct distribution access through its portfolio of leading Internet products, including *Mobile QQ*, *QQ Browser*, *Tencent News* and *Weixin Reading*. Our cooperation with Tencent allows us to have access to user data generated from our self-operated channels on Tencent products and enables us to broaden our user reach given Tencent's leading position in the PRC Internet industry as well as the vast user base of Tencent's online platforms. We also license our content to third-party distribution partners such as *Baidu*, *Sogou*, *JD.com* and *Xiaomi Duokan* for distribution on their own platforms. These third-party platforms generally do not provide us direct access to user data, and they share with us a portion of the online reading revenues generated by our literary content.

Our content library is core to what we do. This vast, proprietary library of literary works comprises a diverse collection of original content largely available exclusively for our direct distribution and monetization through online paid reading as well as adaptation into other media formats often over long contractual periods, typically 20 years or longer. As of June 30, 2017, our content included 9.2 million original literature works spanning over 200 genres, complemented by approximately 410,000 works including those sourced from third-party online platforms as well as digital e-book version of physical works. In 2016, nine of the top ten most searched online literary works published in China, as ranked by *Baidu*, were from our content library. In addition to diversity and quality, our content is often serialized in nature and continuously updated. For the year ended December 31, 2016 and the six months ended June 30, 2017, writers on our platform updated and generated a total of approximately 61.5 billion new characters, contributing to approximately 33.6 million new chapters. Our content library provides us with an enduring runway of high quality intellectual property that lends itself well to copyrighted content franchising. With our proprietary reader feedback data, we are uniquely equipped to manage the literary title adaptation process for our writers and identify the most suitable content for adaptation.

Since the acquisition of Cludary in December 2014, we have experienced significant growth. Our total revenues increased by 59.1% from RMB1.6 billion in 2015 to RMB2.6 billion in 2016 and increased by 92.5% from RMB999.6 million in the six months ended June 30, 2016 to RMB1.9 billion in the six months ended June 30, 2017, while our gross profit increased by 81.7% from RMB580.5 million in 2015 to RMB1.1 billion in 2016, and increased by 135.7% from RMB408.2 million in the six months ended June 30, 2016 to RMB962.2 million in the six months ended June 30, 2017. We had a net profit of RMB30.4 million in 2016, compared with a net loss of RMB354.2 million in 2015, and had a net profit of RMB213.5 million in the six months ended June 30, 2017, compared with a net loss of RMB2.4 million in the six months ended June 30, 2016. Our goodwill accounted for 58.2%, 58.4%, 52.1% and 44.3% of our total assets as of December 31, 2014, 2015 and 2016 and as of June 30, 2017, respectively, and our other intangible assets, which mainly included trademarks and copyrights of contents, accounted for 18.6%, 17.1%, 13.5% and 10.6% of our total assets as of the same dates, respectively. For more details, see the sections headed "Financial Information — Discussion of Certain Key Balance Sheet Items — Intangible Assets" and "Risk Factors — Risks Relating to Our Business and Industry — Change in business prospects of acquisitions may result in goodwill impairment and impairment of our other intangible assets acquired in a business combination, which

## SUMMARY

could negatively affect our reported results of operations.” in this document. Excluding the impact of share-based compensation, net (gain) from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses and tax effects, we had an adjusted net profit of RMB81.1 million in 2016, compared to an adjusted net loss of RMB94.2 million in 2015, and we had an adjusted net profit of RMB302.8 million for the six months ended June 30, 2017, compared to an adjusted net loss of RMB44.8 million for the six months ended June 30, 2016. See the sections headed “Financial Information — Consolidated Income Statement” and “Financial Information — Non-IFRS Measures: Adjusted Operating Profit/(Loss), Adjusted EBITDA and Adjusted Net Profit/(Loss)” in this document.

During the Track Record Period, we generated revenues mainly through (i) online reading, (ii) intellectual property operations, and (iii) physical books. We also generated other revenues, mainly from online games and online advertising services. The following table sets forth our revenues breakdown by amount and as a percentage of our total revenues for the periods presented.

|  | For the year ended December 31,    |              |                  |              |                  |              | For the six months ended June 30, |              |                  |              |
|--|------------------------------------|--------------|------------------|--------------|------------------|--------------|-----------------------------------|--------------|------------------|--------------|
|  | 2014                               |              | 2015             |              | 2016             |              | 2016                              |              | 2017             |              |
|  | RMB                                | %            | RMB              | %            | RMB              | %            | RMB                               | %            | RMB              | %            |
|  | (unaudited)                        |              |                  |              |                  |              |                                   |              |                  |              |
|  | (in thousands, except percentages) |              |                  |              |                  |              |                                   |              |                  |              |
| Online reading   |                                    |              |                  |              |                  |              |                                   |              |                  |              |
| On our self-owned platform products ....               | 316,642                            | 68.0         | 590,834          | 36.9         | 1,057,641        | 41.2         | 405,027                           | 40.5         | 871,510          | 45.3         |
| On our self-operated channels on Tencent products..... | 125,395                            | 26.8         | 197,955          | 12.3         | 666,438          | 26.1         | 214,686                           | 21.5         | 545,805          | 28.4         |
| On third party platforms .....                         | 10,959                             | 2.4          | 182,139          | 11.3         | 249,984          | 9.8          | 103,647                           | 10.4         | 216,463          | 11.2         |
| Total online reading .....                             | 452,996                            | 97.2         | 970,928          | 60.5         | 1,974,063        | 77.1         | 723,360                           | 72.4         | 1,633,778        | 84.9         |
| Intellectual property operations .....                 | 12,148                             | 2.6          | 162,760          | 10.1         | 247,408          | 9.7          | 108,629                           | 10.9         | 155,660          | 8.1          |
| Physical books .....                                   | —                                  | —            | 228,524          | 14.2         | 224,033          | 8.8          | 108,664                           | 10.9         | 93,896           | 4.9          |
| Others <sup>(1)</sup> .....                            | 1,064                              | 0.2          | 244,428          | 15.2         | 111,362          | 4.4          | 58,932                            | 5.8          | 40,864           | 2.1          |
| <b>Total revenues .....</b>                            | <b>466,208</b>                     | <b>100.0</b> | <b>1,606,640</b> | <b>100.0</b> | <b>2,556,866</b> | <b>100.0</b> | <b>999,585</b>                    | <b>100.0</b> | <b>1,924,198</b> | <b>100.0</b> |

Note:

(1) Our other revenues were mainly derived from online games and online advertising services.

Our total revenues increased by 244.6% from RMB466.2 million in 2014 to RMB1.6 billion in 2015, and further increased by 59.1% to RMB2.6 billion in 2016, representing a CAGR of 134.2% from 2014 to 2016.

Our online reading and intellectual property operations experienced significant growth during the Track Record Period, primarily as a result of an increase in our user base, the growth and



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## SUMMARY

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strengthening of our third-party content distribution relationship, as well as the expansion and improvement of our literary content. Other revenues decreased significantly in 2016 compared to 2015, and this trend continued in the six months ended June 30, 2017 as compared with same period in 2016, primarily as a result of a decrease in our online games and online advertising revenues. The decrease in online games revenues was primarily a result of our transition from publishing and operating PC games to mobile games, and two of our self-developed popular online games reaching the end of their life cycles in 2016. The decrease in online advertising revenues was primarily a result of our efforts to limit the online advertising business to improve on our user experience.

Our content costs were RMB190.2 million, RMB391.4 million, RMB839.0 million and RMB585.1 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively, accounting for 72.1%, 38.1%, 55.9% and 60.8% of our total cost of revenues in the respective periods. Our online reading platform distribution costs were RMB15.5 million, RMB37.4 million RMB153.0 million and RMB124.0 million in 2014, 2015, 2016 and the six months ended June 30, 2017, respectively, accounting for 5.9%, 3.6%, 10.2% and 12.9% of our total cost of revenues in the respective periods.

### Our Ecosystem and Its Participants

We designed and developed our online platform around online literature, its writers and its readers in China. We have a large and growing library of online literature, and our platform allows us to manage the entire lifecycle of the content created on our platform, as illustrated in the diagram below.



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## SUMMARY

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### OUR INDUSTRY AND COMPETITIVE LANDSCAPE

China's literature market currently comprises three sectors: online literature, e-books and physical books (of a literary nature). Online literature is defined as literary works originally created for consumption online. Within China's literature market, online literature has grown the fastest, experiencing a CAGR of 44.9% from 2013 to 2016, and is projected to continue to grow at a CAGR of 30.9% from 2016 to 2020. In 2016, the size of online literature market in China was RMB4.6 billion, representing 11.4% of the total literature market in China. This percentage is expected to grow to 22.7% in 2020. The top five online literature companies in China as measured by average mobile DAUs in 2016 are our Company, *iReader*, *Alibaba Literature*, *Chinese All Digital Publishing Group* and *Baidu Literature*. In 2016, we had a 48.4% share of mobile online literature market, as measured by average mobile DAUs, and a 46.5% share of PC online literature market, as measured by average PC DAUs.

The mobile era of online literature has witnessed tremendous increase in the monetization formats and commercial potential of online literature content. Major online literature content adaptation verticals include films, TV series, web series, online games and animations. In 2016, our Company was ranked first in terms of share of online literary titles that were adapted into (i) the top 20 domestic adapted films in terms of box office; (ii) the top 20 domestic adapted TV series in terms of ratings; (iii) the top 20 domestic adapted web series in terms of viewership; (iv) the top 20 domestic adapted online games in terms of cumulative download; and (v) the top 20 domestic adapted animated works in terms of search ranking on *Baidu*.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- Innovative pioneer at the core of China's online literature ecosystem;
- Established and vibrant community of writers, editors and readers;
- Deep pool of writers and vast library of exclusive original content;
- Extensive reader reach and scale;
- Robust editorial capabilities;
- Sophisticated intellectual property operations; and
- Trailblazing management team that created the online literature industry in China.

For detailed discussion of these competitive strengths, see the section headed "Business — Our Strengths" in this document.

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## SUMMARY

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### OUR STRATEGIES

To achieve our mission and further solidify our leadership, we intend to pursue the following strategies:

- Systematically attract, nurture and promote writers;
- Further expand our mobile reading market share;
- Unleash the monetization potential of our intellectual property;
- Promote intellectual property protection in China;
- Selectively pursue strategic alliances, investments and acquisitions; and
- Expand our business internationally.

### RISK FACTORS

Our business and the Global Offering involve certain risks as set out in the section headed “Risk Factors” in this document. You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face include:

- We are subject to risks associated with operating in a rapidly developing and evolving industry;
- Online reading accounts for a majority of our revenues. If we fail to retain our user base or if user engagement ceases to grow or declines or if we fail to maintain or continue to increase our paying ratio, our online reading revenues will decrease, which may materially and adversely affect our business, financial condition, results of operations and prospects;
- If we fail to control our content-related costs, lack popular literary content that can be monetized, fail to acquire various forms of copyrights of such literary content for monetization, or fail to attract and retain writers or maintain the business relationships with the key writers, our business, results of operations and profitability will be materially and adversely affected; and
- We face competition in every aspect of our businesses. If we fail to compete effectively, we may lose users or writers, which could materially and adversely affect our business, financial condition and results of operations.

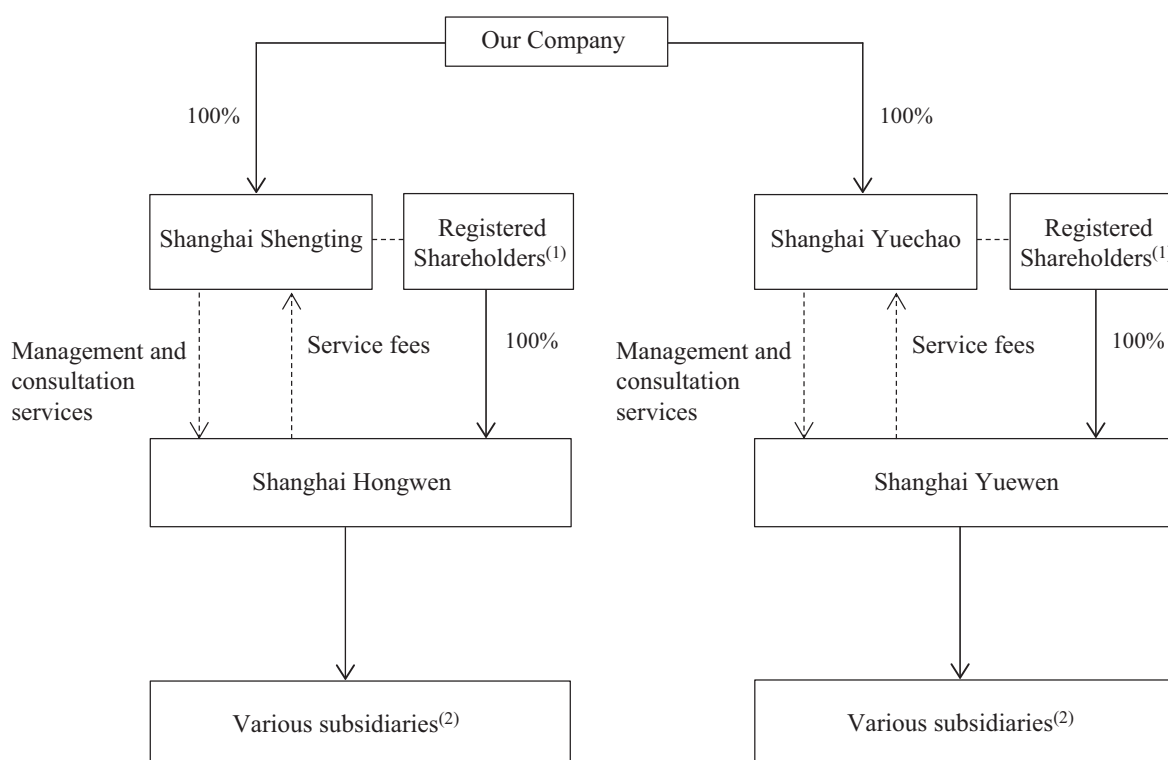
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## SUMMARY

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### CONTRACTUAL ARRANGEMENTS

The operation of our Consolidated Affiliated Entities are subject to various foreign ownership prohibitions or restrictions under PRC laws and regulations. We therefore do not own any equity interest in our PRC Holdcos, which are the holding entities of our Consolidated Affiliated Entities. In order to maintain and exercise control over our Consolidated Affiliated Entities, we have adopted the Contractual Arrangements. The Contractual Arrangements allow us to enjoy the economic benefits of our Consolidated Affiliated Entities and consolidate their results of operations into our Group's. See the section headed "Contractual Arrangements" in this document for further details. The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group as stipulated under the Contractual Arrangements:



*Notes:*

“—>” denotes direct legal and beneficial ownership in the equity interest.

“--->” denotes contractual relationship.

“----” denotes the control by WFOEs over the Registered Shareholders and the PRC Holdcos through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in the PRC Holdcos and (3) equity pledges over the equity interests in the PRC Holdcos.

- Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao. Litong and Ningbo Meishan Yuebao hold 65.38% and 34.62% of the equity interests, respectively, in each of the PRC Holdcos. Litong is owned by Ms. Chen Fei (陳菲) as to 25%, Mr. Zhu Jinsong (朱勁松) as to 25%, Ms. Hu Min (胡敏) as to 25%, and Ms. Li Huimin (李慧敏) as to 25%, while Ningbo Meishan Yuebao is owned by Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Mr. Luo Li (羅立) as to 2.69%.

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## SUMMARY

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2. These include certain investment vehicles which do not currently carry out any business operations but are intended for potential investment in businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. For further details of the subsidiaries of Shanghai Hongwen and Shanghai Yuewen, see the section headed “History, Reorganization and Corporate Structure — Corporate Structure”.

For the risks relating to the Contractual Arrangements, see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document.

The MOFCOM published the Draft Foreign Investment Law in January 2015 for public review and comments aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, *the Sino-foreign Equity Joint Venture Enterprise Law*, *the Sino-foreign Cooperative Joint Venture Enterprise Law* and *the Wholly Foreign-invested Enterprise Law*. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or “FIE”. The Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that the entity is “controlled” by PRC entities and/or citizens. In view of the shareholding structure of Tencent (to the best of our knowledge), we may not be able to fall clearly within the definition of “control” under the Draft Foreign Investment Law in its current form. It is therefore uncertain that we could demonstrate that we are “controlled” by PRC entities and/or citizens if the Draft Foreign Investment Law is enacted in its current form. Furthermore, if the Draft Foreign Investment Law and the final “catalog of special administrative measures” mandate further actions, such as the MOFCOM market entry clearance, to be completed by companies with an existing VIE structure like us, we would face uncertainties as to whether such clearance can be timely obtained, or at all. Our Contractual Arrangements, in a worst case scenario, may be regarded as invalid and illegal, and the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares. For further details, see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements — Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the Draft Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations” in this document.

### OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Tencent, through its wholly-owned subsidiaries (THL A13, Tencent Growthfund and Qinghai Lake) indirectly controlled in aggregate 61.95% of our issued Shares. Immediately after the completion of the Global Offering, Tencent, through such wholly-owned subsidiaries, will indirectly control in aggregate 52.66% of our issued Shares. Accordingly, our Company will remain as a subsidiary of Tencent after the Listing, and Tencent, THL A13, Tencent Growthfund and Qinghai Lake will constitute a group of Controlling Shareholders of our Company.

Save as disclosed in the section headed “Relationship with our Controlling Shareholders” in this document, there is no competition between the business of the Retained Tencent Group and our business.

## SUMMARY

We have entered into a number of non-exempt continuing connected transactions with the Retained Tencent Group, including (i) distribution of our literary works through the online platforms owned by the Retained Tencent Group; (ii) cooperation in the content adaptation of our literary works and/or distribution of products adapted from these literary works; and (iii) certain other non-exempt continuing connected transactions. In relation to these transactions, we are of the view that we do not and will not significantly rely on the Retained Tencent Group. Please refer to the section headed “Relationship with our Controlling Shareholders — Operational Independence” in this document for further details.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountant’s Report in Appendix I to this document. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

### SELECTED CONSOLIDATED INCOME STATEMENT DATA

|   | For the year ended December 31,    |              |                  |               |               |            | For the six months ended June 30, |              |                |             |
|---|------------------------------------|--------------|------------------|---------------|---------------|------------|-----------------------------------|--------------|----------------|-------------|
|   | 2014                               |              | 2015             |               | 2016          |            | 2016                              |              | 2017           |             |
|   | RMB                                | %            | RMB              | %             | RMB           | %          | RMB                               | %            | RMB            | %           |
|   | (unaudited)                        |              |                  |               |               |            |                                   |              |                |             |
|   | (in thousands, except percentages) |              |                  |               |               |            |                                   |              |                |             |
| <b>Revenues</b> .....   | 466,208                            | 100.0        | 1,606,640        | 100.0         | 2,556,866     | 100.0      | 999,585                           | 100.0        | 1,924,198      | 100.0       |
| Cost of revenues .....  | (263,965)                          | (56.6)       | (1,026,106)      | (63.9)        | (1,502,019)   | (58.7)     | (591,416)                         | (59.2)       | (962,004)      | (50.0)      |
| <b>Gross profit</b> .....   | 202,243                            | 43.4         | 580,534          | 36.1          | 1,054,847     | 41.3       | 408,169                           | 40.8         | 962,194        | 50.0        |
| Selling and marketing expenses .  | (127,207)                          | (27.3)       | (539,617)        | (33.6)        | (734,176)     | (28.7)     | (351,704)                         | (35.2)       | (467,399)      | (24.3)      |
| General and administrative expenses .....                               | (70,928)                           | (15.2)       | (355,540)        | (22.1)        | (421,264)     | (16.5)     | (192,372)                         | (19.2)       | (323,500)      | (16.8)      |
| Other gains/(losses), net .....   | (129)                              | —            | 6,863            | 0.4           | 133,916       | 5.2        | 140,576                           | 14.1         | 50,674         | 2.6         |
| <b>Operating profit/(loss)</b> .....                                    | 3,979                              | 0.9          | (307,760)        | (19.2)        | 33,323        | 1.3        | 4,669                             | 0.5          | 221,969        | 11.5        |
| Finance costs .....   | (172)                              | —            | (16,881)         | (1.1)         | (27,092)      | (1.1)      | (12,403)                          | (1.2)        | (20,438)       | (1.1)       |
| Finance income.....   | 309                                | —            | 1,654            | 0.1           | 3,939         | 0.2        | 2,047                             | 0.2          | 12,245         | 0.6         |
| Share of profits of investments accounted for using equity method ..... | —                                  | —            | 5,845            | 0.3           | 28,148        | 1.1        | 10,551                            | 1.1          | 29,915         | 1.6         |
| <b>Profit/(loss) before income tax</b> ..                               | 4,116                              | 0.9          | (317,142)        | (19.7)        | 38,318        | 1.5        | 4,864                             | 0.5          | 243,691        | 12.7        |
| Income tax expense.....   | (25,246)                           | (5.4)        | (37,017)         | (2.3)         | (7,958)       | (0.3)      | (7,245)                           | (0.7)        | (30,202)       | (1.6)       |
| <b>Net profit/(loss) for the year</b> .....                             | <u>(21,130)</u>                    | <u>(4.5)</u> | <u>(354,159)</u> | <u>(22.0)</u> | <u>30,360</u> | <u>1.2</u> | <u>(2,381)</u>                    | <u>(0.2)</u> | <u>213,489</u> | <u>11.1</u> |
| <b>Non-IFRS Measures</b> <sup>(1)</sup>                                 |                                    |              |                  |               |               |            |                                   |              |                |             |
| <b>Adjusted operating profit/(loss)</b> <sup>(2)</sup> .....            | 20,274                             | 4.3          | (28,855)         | (1.8)         | 118,104       | 4.6        | (20,929)                          | (2.1)        | 322,167        | 16.7        |
| <b>Adjusted EBITDA</b> <sup>(3)</sup> .....                             | 35,563                             | 7.6          | 50,901           | 3.2           | 184,425       | 7.2        | 12,753                            | 1.3          | 348,436        | 18.1        |
| <b>Adjusted net profit/(loss) for the period</b> <sup>(4)</sup> .....   | (7,264)                            | (1.6)        | (94,247)         | (5.9)         | 81,124        | 3.2        | (44,791)                          | (4.5)        | 302,842        | 15.7        |



## SUMMARY

Note:

- (1) Adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss) are not measures required by, or presented in accordance with, IFRS. The use of these measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See the section headed “Financial Information — Non-IFRS Measures: Adjusted Operating Profit/(Loss), Adjusted EBITDA and Adjusted Net Profit/(Loss)” in this document for details.
- (2) We define adjusted operating profit/(loss) as profit/(loss) from operations for the period adjusted by adding back share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets and one-off listing expenses.
- (3) We define adjusted EBITDA as EBITDA (which is profit from operations less other gain/(loss), net and plus depreciation and amortisation expenses) for the period adjusted by adding share-based compensation and one-off listing expenses.
- (4) We define adjusted net profit/(loss) as net profit/(loss) for the period adjusted by adding back share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses, and tax effects.

The following tables reconcile our adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which are net profit/(loss) for the period and operating profit/(loss) for the period:

|   | For the year ended December 31, |                        |                       | For the six months ended<br>June 30, |                       |
|---|---------------------------------|------------------------|-----------------------|--------------------------------------|-----------------------|
|   | 2014                            | 2015                   | 2016                  | 2016                                 | 2017                  |
|   |                                 |                        |                       | (unaudited)                          |                       |
|   | (RMB in thousands)              |                        |                       |                                      |                       |
| Reconciliation of operating profit/(loss)<br>to adjusted operating profit/(loss): |                                 |                        |                       |                                      |                       |
| Operating profit/(loss) for the period .....                                      | 3,979                           | (307,760)              | 33,323                | 4,669                                | 221,969               |
| Add:  |                                 |                        |                       |                                      |                       |
| Share-based compensation .....  | 6,578                           | 131,786                | 78,023                | 39,159                               | 52,600                |
| Net (gain) from investee companies <sup>(1)</sup> .....                           | —                               | (32,544)               | (33,000)              | (13,992)                             | (66,299)              |
| Amortization of intangible assets <sup>(2)</sup> .....                            | 9,717                           | 89,126                 | 82,965                | 41,442                               | 32,906                |
| Net (gain)/loss from convertible<br>bonds <sup>(3)</sup> .....                    | —                               | 84,837                 | (92,207)              | (92,207)                             | —                     |
| Impairment provision <sup>(4)</sup> .....   | —                               | 5,700                  | 49,000                | —                                    | 51,200                |
| One-off listing expenses .....  | —                               | —                      | —                     | —                                    | 29,791                |
| <b>Adjusted operating profit/(loss) .....</b>                                     | <b><u>20,274</u></b>            | <b><u>(28,855)</u></b> | <b><u>118,104</u></b> | <b><u>(20,929)</u></b>               | <b><u>322,167</u></b> |

## SUMMARY

Note:

- (1) Includes fair value gain of investment in redeemable shares of an associate, gain on disposal of an associate and subsidiaries and fair value gain of consideration payables related to the acquisition of non-controlling interests.
- (2) Represents amortization of intangible assets resulting from acquisitions.
- (3) Includes fair value loss of convertible bonds and gain on redemption of convertible bonds.
- (4) Includes impairment provision for intangible assets.

|  | For the year ended December 31, |               |                | For the six months ended<br>June 30, |                |
|--|---------------------------------|---------------|----------------|--------------------------------------|----------------|
|  | 2014                            | 2015          | 2016           | 2016                                 | 2017           |
|  | (unaudited)                     |               |                |                                      |                |
| (RMB in thousands)   |                                 |               |                |                                      |                |
| Reconciliation of operating profit/(loss)<br>to EBITDA and adjusted EBITDA |                                 |               |                |                                      |                |
| Operating profit/(loss) for the period .....                               | 3,979                           | (307,760)     | 33,323         | 4,669                                | 221,969        |
| Add:   |                                 |               |                |                                      |                |
| Other (gain)/loss, net .....   | 129                             | (6,863)       | (133,916)      | (140,576)                            | (50,674)       |
| Depreciation of property, plant and<br>equipment .....                     | 1,409                           | 12,284        | 14,531         | 7,351                                | 13,688         |
| Amortization of intangible assets .....                                    | 23,468                          | 221,454       | 192,464        | 102,150                              | 81,062         |
| EBITDA.....  | 28,985                          | (80,885)      | 106,402        | (26,406)                             | 266,045        |
| Add:   |                                 |               |                |                                      |                |
| Share-based compensation.....  | 6,578                           | 131,786       | 78,023         | 39,159                               | 52,600         |
| One-off listing expenses.....  | —                               | —             | —              | —                                    | 29,791         |
| <b>Adjusted EBITDA</b> .....   | <u>35,563</u>                   | <u>50,901</u> | <u>184,425</u> | <u>12,753</u>                        | <u>348,436</u> |

|                    | For the year ended December 31, |      |      | For the six months ended<br>June 30, |      |
|--------------------|---------------------------------|------|------|--------------------------------------|------|
|                    | 2014                            | 2015 | 2016 | 2016                                 | 2017 |
|                    | (unaudited)                     |      |      |                                      |      |
| (RMB in thousands) |                                 |      |      |                                      |      |

|   |                |                 |               |                 |                |
|---|----------------|-----------------|---------------|-----------------|----------------|
| Reconciliation of net profit/(loss) to<br>adjusted net profit/(loss): |                |                 |               |                 |                |
| Net profit/(loss) for the period .....                                | (21,130)       | (354,159)       | 30,360        | (2,381)         | 213,489        |
| Add:  |                |                 |               |                 |                |
| Share-based compensation.....   | 6,578          | 131,786         | 78,023        | 39,159          | 52,600         |
| Net (gain) from investee companies <sup>(1)</sup> .....               | —              | (34,522)        | (42,150)      | (23,942)        | (66,299)       |
| Amortization of intangible assets <sup>(2)</sup> .....                | 9,717          | 89,126          | 82,965        | 41,442          | 32,906         |
| Net (gain)/loss from convertible<br>bonds <sup>(3)</sup> .....        | —              | 84,837          | (92,207)      | (92,207)        | —              |
| Impairment provision <sup>(4)</sup> .....                             | —              | 5,700           | 49,000        | —               | 51,200         |
| One-off listing expenses.....   | —              | —               | —             | —               | 29,791         |
| Tax effects .....   | (2,429)        | (17,015)        | (24,867)      | (6,862)         | (10,845)       |
| <b>Adjusted net profit/(loss)</b> .....                               | <u>(7,264)</u> | <u>(94,247)</u> | <u>81,124</u> | <u>(44,791)</u> | <u>302,842</u> |

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## SUMMARY

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*Note:*

- (1) Includes fair value gain of investment in redeemable shares of an associate, dilution gain, impairment of associate, gain on disposal of an associate and subsidiaries and fair value gain of consideration payables related to the acquisition of non-controlling interests.
- (2) Represents amortization of intangible assets resulting from acquisitions.
- (3) Includes fair value loss of convertible bonds and gain on redemption of convertible bonds.
- (4) Includes impairment provision for intangible assets.

### SELECTED BALANCE SHEET DATA

|   | As of December 31,  |                  |                  | As of June 30,   |
|---|---------------------|------------------|------------------|------------------|
|   | 2014                | 2015             | 2016             | 2017             |
|   | (in thousands, RMB) |                  |                  |                  |
| Total non-current assets .....            | 5,022,976           | 5,025,715        | 5,016,493        | 5,713,336        |
| Total current assets .....                | 1,360,433           | 1,355,375        | 2,115,212        | 2,684,059        |
| <b>Total assets</b> .....                 | <b>6,383,409</b>    | <b>6,381,090</b> | <b>7,131,705</b> | <b>8,397,395</b> |
| Total share capital.....                  | 409                 | 409              | 431              | 452              |
| Total share premium .....                 | 4,658,606           | 4,658,606        | 5,311,029        | 5,998,773        |
| Total other reserves.....                 | (38,201)            | 94,563           | 210,878          | 243,938          |
| Total accumulated losses.....             | (21,663)            | (378,110)        | (356,113)        | (144,093)        |
| Total non-controlling interests.....      | 68,608              | 82,491           | 42,057           | 36,420           |
| <b>Total equity</b> .....                 | <b>4,667,759</b>    | <b>4,457,959</b> | <b>5,208,282</b> | <b>6,135,490</b> |
| Total non-current liabilities.....        | 327,829             | 362,831          | 264,957          | 722,613          |
| Total current liabilities.....            | 1,387,821           | 1,560,300        | 1,658,466        | 1,539,292        |
| <b>Total liabilities</b> .....            | <b>1,715,650</b>    | <b>1,923,131</b> | <b>1,923,423</b> | <b>2,261,905</b> |
| <b>Total equity and liabilities</b> ..... | <b>6,383,409</b>    | <b>6,381,090</b> | <b>7,131,705</b> | <b>8,397,395</b> |

## SUMMARY

### SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS DATA

|  | For the year ended December 31, |           |           | For the six months ended<br>June 30, |           |
|--|---------------------------------|-----------|-----------|--------------------------------------|-----------|
|  | 2014                            | 2015      | 2016      | 2016                                 | 2017      |
|  | (unaudited)                     |           |           |                                      |           |
|  | (in thousands, RMB)             |           |           |                                      |           |
| Net cash flows generated from/(used in)  |                                 |           |           |                                      |           |
| operating activities .....               | 109,219                         | 198,019   | 185,787   | (46,216)                             | 325,263   |
| Net cash flows used in investing         |                                 |           |           |                                      |           |
| activities .....                         | (3,862,083)                     | (646,372) | (463,750) | (280,105)                            | (22,939)  |
| Net cash flows provided by/(used in)     |                                 |           |           |                                      |           |
| financing activities .....               | 4,544,274                       | (64,143)  | 360,250   | 360,250                              | 825,701   |
| Net increase/(decrease) in cash and cash |                                 |           |           |                                      |           |
| equivalents .....                        | 791,410                         | (512,496) | 82,287    | 33,929                               | 1,128,025 |
| Cash and cash equivalents at the         |                                 |           |           |                                      |           |
| beginning of the period .....            | 39,202                          | 830,017   | 331,090   | 331,090                              | 404,915   |
| Cash and cash equivalents of disposal    |                                 |           |           |                                      |           |
| group classified as held for sale .....  | —                               | —         | (9,667)   | —                                    | —         |
| Exchange gains/(losses) on cash and      |                                 |           |           |                                      |           |
| cash equivalents .....                   | (595)                           | 13,569    | 1,205     | 314                                  | (3,027)   |
| Cash and cash equivalents at the end of  |                                 |           |           |                                      |           |
| the period .....                         | 830,017                         | 331,090   | 404,915   | 365,333                              | 1,529,913 |

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

|  | For the year ended December 31, |        |      | For the six months ended<br>June 30, |      |
|--|---------------------------------|--------|------|--------------------------------------|------|
|  | 2014                            | 2015   | 2016 | 2016                                 | 2017 |
|  | (in thousands, RMB)             |        |      |                                      |      |
| Total revenues growth (%) .....                    | N/A                             | 244.6  | 59.1 | N/A                                  | 92.5 |
| Gross margin <sup>(1)</sup> (%) .....              | 43.4                            | 36.1   | 41.3 | 40.8                                 | 50.0 |
| Net margin <sup>(2)</sup> (%).....                 | (4.5)                           | (22.0) | 1.2  | (0.2)                                | 11.1 |
| Adjusted EBITDA margin <sup>(3)</sup> (%).....     | 7.6                             | 3.2    | 7.2  | 1.3                                  | 18.1 |
| Adjusted operating margin <sup>(4)</sup> (%) ..... | 4.3                             | (1.8)  | 4.6  | (2.1)                                | 16.7 |
| Adjusted net margin <sup>(5)</sup> (%).....        | (1.6)                           | (5.9)  | 3.2  | (4.5)                                | 15.7 |

Note:

- (1) Gross margin equals gross profit divided by revenues for the period and multiplied by 100%.
- (2) Net margin equals net profit/(loss) divided by revenues for the period and multiplied by 100%.
- (3) Adjusted EBITDA margin equals adjusted EBITDA divided by revenues for the period and multiplied by 100%.

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## SUMMARY

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- (4) Adjusted operating margin equals adjusted operating profit/(loss) divided by revenues for the period and multiplied by 100%.
- (5) Adjusted net margin equals adjusted net profit/(loss) for the year divided by revenues for the period and multiplied by 100%.

### KEY OPERATING DATA

|   | For the year ended December 31, |               |               | For the six months ended<br>June 30, |               |
|---|---------------------------------|---------------|---------------|--------------------------------------|---------------|
|   | 2014 <sup>(1)</sup>             | 2015          | 2016          | 2016                                 | 2017          |
| Average MAUs on our platform and self-operated channels (average of MAUs for each calendar month) ..... | N/A                             | 117.1 million | 169.9 million | 157.0 million                        | 191.8 million |
| Average MPUs on our platform and self-operated channels (average of MPUs for each calendar month) ..... | N/A                             | 3.8 million   | 8.3 million   | 6.8 million                          | 11.5 million  |
| Paying ratio <sup>(2)</sup> .....   | N/A                             | 3.3%          | 4.9%          | 4.4%                                 | 6.0%          |
| Online reading revenue per MPU <sup>(3)</sup> .....   | N/A                             | RMB205.6      | RMB208.5      | RMB90.6                              | RMB122.8      |

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*Note:*

- (1) Our operating data for 2014 does not include the operating data of Clouduary, which used a different methodology to track its operating data and is impractical to conform to those of ours. Therefore, we believe it is inappropriate and potentially distorting to disclose key operating data for 2014 as it does not facilitate investors' understanding of our business performance.
- (2) Paying ratio equals average MPU divided by average MAU during a certain period of time.
- (3) Online reading revenue on our platform and self-operated channels divided by average MPUs.

Our key operating data has generally witnessed significant increase between 2015 and 2016 and between six months ended June 30, 2016 and 2017, consistent with our overall growth.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2016, being RMB2.56 billion (equivalent to approximately HK\$3.03 billion), which is over HK\$500 million, and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

### DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant.

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## SUMMARY

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Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. We do not have a fixed dividend payout ratio.

### GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 15,137,200 Offer Shares (subject to reallocation) in Hong Kong as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this document; and
- (ii) the International Offering of an aggregate of initially 136,234,600 Shares (including 15,409,090 Sale Shares and 7,568,600 Reserved Shares under the Preferential Offering) (subject to reallocation and the Over-allotment Option), (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong). Of the 136,234,600 Offer Shares initially being offered under the International Offering, 7,568,600 Offer Shares are available for subscription by the Qualifying Tencent Shareholders under the Preferential Offering as the Assured Entitlement.

The Offer Shares will represent 16.70% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised.

### RECENT DEVELOPMENTS

Our Directors confirm that there have been no material adverse changes in our financial, operational or trading positions or prospects since June 30, 2017, being the date of our consolidated financial statements as set out in the Accountant’s Report in Appendix I to this document, and up to the date of this document. We estimate that the total listing expenses for the year of 2017 in the amount of RMB57.5 million will be charged to our consolidated statement of comprehensive income for the year ending December 31, 2017. The balance of approximately RMB157.2 million, which includes underwriting commissions, is expected to be capitalized. In August 2017, one of our third-party content distribution platforms, Migu, commenced legal proceedings against us for ceasing to update a number of literary products on Migu’s reading platform in purported breach of contract. See the section headed “Business — Legal Proceedings and Compliance” in this document for more details on our legal disputes with Migu.



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## SUMMARY

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### OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 135,962,710 New Shares are issued pursuant to the Global Offering; and (ii) 906,417,239 Shares are issued and outstanding following the completion of the Global Offering saved as disclosed in note (2) below.

|   | Based on an Offer Price<br>of HK\$48.00 | Based on an Offer Price<br>of HK\$55.00 |
|---|---|---|
| Market capitalization of our Shares <sup>(1)</sup> .....                              | HK\$43,508.03 million                   | HK\$49,852.95 million                   |
| Unaudited pro forma adjusted net tangible<br>assets per Share <sup>(2)(3)</sup> ..... | HK\$9.29 (RMB7.83)                      | HK\$10.35 (RMB8.73)                     |

*Notes:*

- (1) The calculation of market capitalization is based on 906,417,239 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible assets per Share as at June 30, 2017 is calculated after making the adjustments referred to in Appendix II to this document and on the basis that 873,429,148 Shares are expected to be in issue immediately upon completion of the Global Offering (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing) but takes no account of 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.
- (3) However, assuming that the 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions are vested upon the Global Offering, such that 906,417,239 Shares are in issue immediately following the completion of the Global Offering (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing), the unaudited pro forma adjusted net tangible assets per Share would have been RMB7.55 (equivalent to HK\$8.95) (based on the Offer Price of HK\$48.00 per Share) and RMB8.41 (equivalent to HK\$9.97) (based on the Offer Price of HK\$55.00 per Share), respectively. This does not take into account any Shares that may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

For the calculation of the unaudited pro forma adjusted net tangible assets per Share attributable to our Shareholders, see the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this document.

### LISTING EXPENSES

Based on the mid-point Offer Price of HK\$51.50, the total estimated listing related expenses payable by us in relation to the offering of the New Shares under the Global Offering, together with the fees and expenses for professional advisors and service providers engaged for the Global Offering, is approximately RMB214.7 million (or approximately RMB66.6 million after excluding underwriting commission, SFC transaction levy and Stock Exchange trading fee of approximately RMB148.1 million). No such expenses were recognised and charged to our consolidated statements of comprehensive income for the years ended December 31, 2014, 2015 and 2016. In the six months ended June 30, 2017, the listing expenses incurred by us were approximately RMB34.6 million, of which RMB29.8 million was charged to our consolidated statement of comprehensive income for the six months ended June 30, 2017. We estimate that the total listing expenses for the year of 2017 in

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## SUMMARY

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the amount of RMB57.5 million will be charged to our consolidated statement of comprehensive income for the year ending December 31, 2017. The balance of approximately RMB157.2 million, which includes underwriting commission, is expected to be capitalized. These listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering and the underwriting commission and incentive fee payable to the Underwriters in connection with the offering of New Shares under the Global Offering.

The listing expenses, including the underwriting commission, SFC transaction levy and Stock Exchange trading fees, relating to the sale of the Sale Shares payable by the Selling Shareholders, namely Laoshe and TB Partners, are expected to be RMB8.4 million and RMB8.4 million, respectively. The listing expenses, including the underwriting commission, incentive fee (if any), SFC transaction levy and Stock Exchange trading fees payable by the Over-allotment Option Grantors, namely, Laoshe and TB Partners, relating to the sale of additional Shares pursuant to the exercise of the Over-allotment Option are expected to be RMB19.9 million and RMB4.8 million, respectively, if the Over-allotment Option is fully exercised. Both calculations are based on the mid-point Offer Price of HK\$51.50.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$51.50 per share, being the mid-point of the Offer Price range stated in this document, we estimate that we will receive net proceeds from the Global Offering of approximately HK\$6,747.5 million after deduction of underwriting fees and other estimated expenses in connection with the Global Offering. We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

| Amount of the estimated net proceeds              | Intended use of net proceeds   |
|---|--|
| • Approximately 30%, or HK\$2,024.3 million ..... | Expand our online reading business and our sales and marketing activities  |
| • Approximately 30%, or HK\$2,024.3 million ..... | Expand our involvement in the development of derivative entertainment products adapted from our online literary titles |
| • Approximately 30%, or HK\$2,024.3 million ..... | Fund our potential investments, acquisitions and strategic alliances   |
| • Approximately 10%, or HK\$674.6 million ..      | Working capital and general corporate purposes   |

For further details, see the section headed “Future Plans and Use of Proceeds” in this document.

In the event that we receive net proceeds from the Global Offering higher or lower than the estimated amount stated above, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

We will not receive net proceeds if the Over-allotment Option is exercised. If the Over-allotment Option is exercised in full, the Over-allotment Option Grantors will receive the net proceeds for up to 22,705,600 additional Offer Shares to be sold and transferred upon the exercise of the Over-allotment Option.

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## SUMMARY

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### **SPIN-OFF**

Having considered, among other things, that our online literature business has grown to a sufficient size that warrants a separate listing on the Stock Exchange, Tencent submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. The Stock Exchange has confirmed that Tencent may proceed with the Spin-off as proposed. Our Company will comply with the requirements under Practice Note 15 and the applicable requirements of the Listing Rules regarding the Spin-off. See the section headed “History, Reorganization and Corporate Structure — Spin-off” in this document for further details of the Spin-off.

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this document.*

|   |   |
|---|---|
| “affiliate”                             | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person  |
| “Application Form(s)”                   | <b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) or <b>GREEN</b> Application Form(s), individually or collectively, as the context so requires, any of them, which is used in relation to the Hong Kong Public Offering and <b>BLUE</b> Application Form(s) in relation to the Preferential Offering                 |
| “Articles” or “Articles of Association” | the amended and restated articles of association of our Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of our Company and the Companies Law” in Appendix III to this document |
| “associate(s)”                          | has the meaning ascribed thereto under the Listing Rules  |
| “Assured Entitlement”                   | the entitlement of the Qualifying Tencent Shareholders to apply for the Reserved Shares on an assured basis pursuant to the Preferential Offering determined on the basis of their respective shareholdings in Tencent on the Record Date   |
| “Available Reserved Share(s)”           | has the meaning ascribed to it in the section headed “Structure of the Global Offering — The Preferential Offering — Basis of Allocation for Applications for Reserved Shares” in this document   |
| “Beijing Hongxiu”                       | Beijing Hongxiu Tianxiang Technology Development Co., Ltd. (北京紅袖添香科技發展有限公司), a company established in the PRC on March 20, 2006 and one of our Consolidated Affiliated Entities   |
| “Beneficial Tencent Shareholder(s)”     | any beneficial owner(s) of Tencent Shares whose Tencent Shares are registered, as shown in the register of members of Tencent, in the name of a registered Tencent Shareholder on the Record Date   |
| “BLUE Application Form(s)”              | the application form(s) to be sent to Qualifying Tencent Shareholders for the subscription of the Reserved Shares pursuant to the Preferential Offering   |

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## DEFINITIONS

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|-----------------------------------|--|
| “Blue Form eIPO”                  | the application for Reserved Shares to be issued in a Qualifying Tencent Shareholder’s own name by submitting applications online through the designated website of the Blue Form eIPO at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> |
| “Blue Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited  |
| “Board”                           | the board of directors of our Company  |
| “business day”                    | any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business  |
| “CAC”                             | Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室)   |
| “Cayman Registrar”                | the Registrar of Companies of the Cayman Islands   |
| “CCASS”                           | The Central Clearing and Settlement System established and operated by HKSCC   |
| “CCASS Clearing Participant”      | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant   |
| “CCASS Custodian Participant”     | a person admitted to participate in CCASS as a custodian participant   |
| “CCASS Investor Participant”      | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation  |
| “CCASS Participant”               | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant  |
| “China” or “PRC”                  | the People’s Republic of China and for the purposes of this document only, except where the context requires otherwise, excluding Hong Kong, Macau and Taiwan  |
| “China Reading HK”                | China Reading (Hong Kong) Limited 中國閱讀(香港)有限公司, a limited liability company incorporated in Hong Kong on April 24, 2013, and our directly wholly-owned subsidiary  |
| “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            |

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## DEFINITIONS

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| “Cloudary HK”   | Cloudary Holdings Limited 閱文文學有限公司 (formerly known as Shanda Literature Limited), a limited liability company incorporated in Hong Kong on September 28, 2007, and our indirectly wholly-owned subsidiary  |
| “Co-effort”   | Co-effort Law Firm LLP   |
| “Companies Law”   | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time  |
| “Companies Ordinance”   | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| “Company”, “our Company”, or “the Company”                      | China Literature Limited 閱文集團 (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013   |
| “connected person(s)”   | has the meaning ascribed to it under the Listing Rules   |
| “connected transaction(s)”                                      | has the meaning ascribed to it under the Listing Rules   |
| “Consolidated Affiliated Entities”                              | the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries. For further details of these entities, see the section headed “History, Recorganization and Corporate Structure — Corporate Structure” in this document                    |
| “Contractual Arrangements”                                      | the series of contractual arrangements entered into by, among others, our Company, the WFOEs and the PRC Holdcos, details of which are described in the section headed “Contractual Arrangements” in this document   |
| “Controlling Shareholders”                                      | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Tencent, THL A13, Qinghai Lake and Tencent Growthfund. For further details of these entities, see the section headed “Relationship with our Controlling Shareholders” in this document |
| “CSDCC”   | China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)  |



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## DEFINITIONS

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|---|--|
| “CSRC”  | China Securities Regulatory Commission (中國證券監督管理委員會)   |
| “Deal Plus”   | Deal Plus Global Limited, one of our Shareholders and a limited liability company incorporated under the laws of the British Virgin Islands on August 19, 2014 as an investment vehicle which is held as to 48.9% by THL A13, 36.1% by TB Partners and 15% by an Independent Third Party                               |
| “Director(s)”   | the director(s) of our Company   |
| “Draft Foreign Investment Law”                          | the Draft Foreign Investment Law (中華人民共和國外國投資法) published by the MOFCOM in January 2015  |
| “GAPP”  | the General Administration of Press and Publication (新聞出版總署)   |
| “GAPPRFT”   | the General Administration of Press, Publications, Radio, Film and Television, the successor of SARFT and GAPP (國家新聞出版廣電總局)  |
| “Global Offering”                                       | the Hong Kong Public Offering and the International Offering (including the Preferential Offering)   |
| “GREEN Application Form(s)”                             | the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company, Computershare Hong Kong Investor Services Limited   |
| “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 |
| “HKSCC”   | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited   |
| “HKSCC Nominees”  | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC   |
| “Hong Kong” or “HK”                                     | the Hong Kong Special Administrative Region of the People’s Republic of China  |
| “Hong Kong dollars” or “HK dollars” or “HK\$”           | Hong Kong dollars, the lawful currency of Hong Kong  |

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## DEFINITIONS

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|---|---|
| “Hong Kong Offer Shares”                              | the 15,137,200 Shares initially being offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this document)  |
| “Hong Kong Public Offering”                           | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this document and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this document   |
| “Hong Kong Securities and Futures Ordinance” or “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Hong Kong Share Registrar”                           | Computershare Hong Kong Investor Services Limited   |
| “Hong Kong Underwriters”                              | the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this document  |
| “Hong Kong Underwriting Agreement”                    | the underwriting agreement, dated October 25, 2017, relating to the Hong Kong Public Offering, entered into by our Company, Morgan Stanley Asia Limited, Merrill Lynch Far East Limited, Merrill Lynch International, Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited, China International Capital Corporation Hong Kong Securities Limited, and the other Hong Kong Underwriters, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this document |
| “IFRS”  | International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board  |
| “Independent Third Party(ies)”                        | any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules   |

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## DEFINITIONS

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| “International Offering”               | the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this document (for the avoidance of doubt, of the International Offer Shares initially being offered under the International Offering, the Reserved Shares are made available for subscription by the Qualifying Tencent Shareholders under the Preferential Offering)   |
| “International Offer Shares”           | the 136,234,600 Shares being initially offered for subscription and purchased at the Offer Price under the International Offering (including, for the avoidance of doubt, 15,409,090 Sale Shares and 7,568,600 Reserved Shares for the Preferential Offering) together, where relevant, with any additional Shares that may be sold and transferred pursuant to any exercise of the Over-allotment Option, subject to reallocation as described under the section headed “Structure of the Global Offering” in this document   |
| “International Underwriters”           | the underwriters of the International Offering   |
| “International Underwriting Agreement” | the international underwriting agreement relating to the International Offering and expected to be entered into by, inter alia, our Company, the Over-allotment Option Grantors, the Joint Global Coordinators and the International Underwriters on or about October 31, 2017, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this document   |
| “Joint Bookrunners”                    | Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), Merrill Lynch International, Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering), J.P. Morgan Securities plc (in relation to the International Offering), China International Capital Corporation Hong Kong Securities Limited, China Securities (International) Corporate Finance Company Limited, China Renaissance Securities (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited, CMB International Capital Limited, BOCI Asia Limited and The Hongkong and Shanghai Banking Corporation Limited |

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## DEFINITIONS

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|-----------------------------|--|
| “Joint Global Coordinators” | Morgan Stanley Asia Limited, Merrill Lynch International, Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited and China International Capital Corporation Hong Kong Securities Limited  |
| “Joint Lead Managers”       | Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering), Merrill Lynch International (in relation to the International Offering), Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering), J.P. Morgan Securities plc (in relation to the International Offering), China International Capital Corporation Hong Kong Securities Limited, China Securities (International) Corporate Finance Company Limited, China Renaissance Securities (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited, CMB International Capital Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited and Futu Securities International (Hong Kong) Limited |
| “Joint Sponsors”            | Morgan Stanley Asia Limited, Merrill Lynch Far East Limited and Credit Suisse (Hong Kong) Limited  |
| “Laoshe”                    | Laoshe Investment Limited, one of our Shareholders, a limited liability company incorporated under the laws of the Cayman Islands as an investment vehicle on October 27, 2014 and wholly-owned by investment funds managed and advised by The Carlyle Group   |
| “Latest Practicable Date”   | October 16, 2017, being the latest practicable date for ascertaining certain information in this document before its publication   |
| “Link Apex”                 | Link Apex Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands on August 15, 2017, a Shareholder holding the Shares issued pursuant to the RSU Plan on trust  |
| “Listing”                   | the listing of the Shares on the Main Board  |
| “Listing Committee”         | the Listing Committee of the Stock Exchange  |
| “Listing Date”              | the date, expected to be on or about November 8, 2017, on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange  |

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## DEFINITIONS

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|   |   |
|---|---|
| “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  |
| “Litong”                                    | Shenzhen Litong Industry Investment Fund Company Limited (深圳市利通產業投資基金有限公司), a company established in the PRC on August 5, 2013, which is a shareholder of each of the PRC Holdcos and a subsidiary of Tencent   |
| “Luxun”                                     | Luxun Investment Limited, one of our Shareholders, a limited liability company incorporated under the laws of the Cayman Islands on October 27, 2014 as an investment vehicle and wholly-owned by investment funds managed and advised by The Carlyle Group |
| “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  |
| “Managing Shareholders”                     | Grand Profits Worldwide Limited, Rise Dragon Investment Limited, Grand Profits Asia Limited, Jun Chang Limited and Billion Excel Limited  |
| “Maximum Offer Price”                       | HK\$55.00, being the high end of the Offer Price range stated in this document  |
| “Memorandum” or “Memorandum of Association” | the amended and restated memorandum of association of our Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time  |
| “MIIT”                                      | Ministry of Industry and Information Technology (中華人民共和國工業和信息化部)  |
| “MOC”                                       | Ministry of Culture of the PRC (中華人民共和國文化部)   |
| “MOFCOM”                                    | Ministry of Commerce of the PRC (中華人民共和國商務部)  |
| “New Shares”                                | Shares offered for subscription by our Company under the Global Offering  |
| “Ningbo Meishan Yuebao”                     | Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保稅港區閱寶投資有限公司), a company established in the PRC on April 25, 2017 and a shareholder of each of the PRC Holdcos   |

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## DEFINITIONS

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|---|---|
| “Non-Qualifying Tencent Shareholder(s)” | Tencent Shareholder(s) whose name(s) appeared in the register of members of Tencent on the Record Date and whose address(es) as shown in such register are in any of the Specified Territories and any Tencent Shareholder(s) or Beneficial Tencent Shareholder(s) at that time who are otherwise known by Tencent to be resident in any of the Specified Territories   |
| “Offer Price”                           | the final price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Offer Shares are to be subscribed for and offered pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this document   |
| “Offer Share(s)”                        | the Hong Kong Offer Shares and the International Offer Shares (including, for the avoidance of doubt, the Reserved Shares) together, where relevant, with any additional Shares to be sold by the Over-allotment Option Grantors pursuant to the exercise of the Over-allotment Option  |
| “Over-allotment Option”                 | the option expected to be granted by Over-allotment Option Grantors to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantors to sell up to 22,705,600 additional Shares (representing in aggregate approximately 15% of the initial Offer Shares) to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — Stabilization” in this document |
| “Over-allotment Option Grantors”        | Laoshe and TB Partners, each in the capacity of a grantor of the Over-allotment Option pursuant to the International Underwriting Agreement   |
| “PBOC”                                  | the People’s Bank of China (中國人民銀行)   |
| “Peak Income”                           | Peak Income Group Limited, a limited liability company incorporated under the laws of the British Virgin Islands on August 15, 2017, a Shareholder holding the Shares issued pursuant to the RSU Plan on trust  |
| “PRC Holdcos”                           | Shanghai Hongwen and Shanghai Yuewen  |

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## DEFINITIONS

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| “PRC Legal Advisor”                             | Han Kun Law Offices  |
| “Preferential Offering”                         | the preferential offering to the Qualifying Tencent Shareholders of 7,568,600 Shares (representing approximately 5% of the Offer Shares initially being offered under the Global Offering) as an Assured Entitlement out of the International Offer Shares being offered under the International Offering at the Offer Price, on and subject to the terms and conditions set out in this document and in the BLUE Application Form, as further described in the section headed “Structure of the Global Offering — The Preferential Offering” in this document |
| “Pre-IPO Investments”                           | the Pre-IPO investments in our Company undertaken by the Pre-IPO Investors, details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this document  |
| “Pre-IPO Investors”                             | THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus, TB Partners, Grand Profits Worldwide Limited, Rise Dragon Investment Limited, Grand Profits Asia Limited, Jun Chang Limited and Billion Excel Limited   |
| “Pre-IPO Shareholders’ Agreement”               | the pre-IPO shareholders’ agreement dated January 16, 2017, entered into by and among our Company, THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus, TB Partners, Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松), Mr. Lin Tingfeng (林庭鋒), Mr. Luo Li (羅立) and Mr. Hou Qingchen (侯慶辰), which will be terminated upon the Listing   |
| “Price Determination Agreement”                 | the agreement to be entered into among our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to record and fix the Offer Price   |
| “Price Determination Date”                      | the date, expected to be on or about October 31, 2017 (Hong Kong time) and in any event no later than November 7, 2017, on which the Offer Price is to be fixed by an agreement among the Joint Global Coordinators (for themselves on behalf of the Underwriters), the Selling Shareholders and our Company   |
| “Principal Share Registrar and Transfer Office” | Maples Fund Services (Cayman) Limited, whose address is at PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands  |

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## DEFINITIONS

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| “prospectus”                        | this prospectus being issued in connection with the Hong Kong Public Offering   |
| “QIB”                               | a qualified institutional buyer within the meaning of Rule 144A   |
| “Qinghai Lake”                      | Qinghai Lake Investment Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands on July 1, 2014 as an investment vehicle and a wholly-owned subsidiary of Tencent   |
| “Qisheng Culture Communication”     | Qisheng Culture Communication (Tianjin) Co., Ltd. (奇盛文化傳播(天津)有限公司), a company established in the PRC on July 3, 2014, and our directly wholly-owned subsidiary  |
| “Qualifying Tencent Shareholder(s)” | Tencent Shareholder(s), whose name(s) appeared on the register of members of Tencent on the Record Date, excluding the Non-Qualifying Tencent Shareholders  |
| “Record Date”                       | October 20, 2017, being the record date for determining the Assured Entitlement of the Qualifying Tencent Shareholders to the Reserved Shares   |
| “Registered Shareholders”           | the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao, which own each of the PRC Holdcos as to 65.38% and 34.62%, respectively  |
| “Regulation S”                      | Regulation S under the U.S. Securities Act  |
| “Relevant Individual Shareholders”  | the shareholders of Litong, namely, Ms. Chen Fei (陳菲), Mr. Zhu Jinsong (朱勁松), Ms. Hu Min (胡敏), Ms. Li Huimin (李慧敏), Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松) and Mr. Lin Tingfeng (林庭鋒); and the shareholders of Ningbo Meishan Yuebao, namely, Mr. Luo Li (羅立) and Mr. Hou Qingchen (侯慶辰), and each of them, a Relevant Individual Shareholder |
| “Relevant Person(s)”                | the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, Tencent, any of their or the Company’s respective directors, officers or representatives or any other parties involved in the Global Offering  |



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## DEFINITIONS

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| “Reserved Share(s)”      | the 7,568,600 Shares being offered by our Company pursuant to the Preferential Offering at the Offer Price to the Qualifying Tencent Shareholders as the Assured Entitlement, which are to be allocated out of the International Offer Shares as described in the section headed “Structure of the Global Offering” in this document |
| “Retained Tencent Group” | Tencent and its subsidiaries, excluding our Group  |
| “RMB” or “Renminbi”      | Renminbi, the lawful currency of China   |
| “RSU Plan”               | the scheme adopted by our Company to grant RSUs to our Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014. See the section headed “Statutory and General Information — D. RSU Plan” in Appendix IV to this document  |
| “RSUs”                   | restricted share units   |
| “Rule 144A”              | Rule 144A under the U.S. Securities Act  |
| “SAFE”                   | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)   |
| “SAIC”                   | State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)  |
| “Sale Shares”            | the Shares to be offered for sale by the Selling Shareholders at the Offer Price under the Global Offering   |
| “SARFT”                  | the State Administration of Radio, Film and Television (國家廣播電影電視總局)  |
| “SAT”                    | State Administration of Taxation (國家稅務總局)  |
| “SCNPC”                  | Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)   |
| “SEC”                    | the Securities and Exchange Commission of the United States  |
| “Selling Shareholders”   | Laoshe and TB Partners, each in the capacity of a seller of the Sale Shares pursuant to the International Underwriting Agreement   |
| “SFC”                    | the Securities and Futures Commission of Hong Kong   |
| “Shanghai Hongwen”       | Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008, and one of the PRC Holdcos  |

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## DEFINITIONS

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| “Shanghai Qiwen”                  | Shanghai Qiwen Information Technology Co., Ltd. (上海啟聞信息技術有限公司), a company established in the PRC on April 16, 2013 and one of our Consolidated Affiliated Entities                     |
| “Shanghai Shengting”              | Shengting Information Technology (Shanghai) Co., Ltd. (盛霆信息技術(上海)有限公司), a company established in the PRC on May 27, 2008, and our directly wholly-owned subsidiary                     |
| “Shanghai Xuanting”               | Shanghai Xuanting Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息科技有限公司), a company established in the PRC on August 26, 2004 and one of our Consolidated Affiliated Entities |
| “Shanghai Yuechao”                | Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and our directly wholly-owned subsidiary                          |
| “Shanghai Yuewen”                 | Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014, and one of our PRC Holdcos   |
| “Shareholder(s)”                  | holder(s) of our Share(s)  |
| “Shares”                          | ordinary shares in the share capital of our Company with a par value of US\$0.0001 each  |
| “Shengyun Information Technology” | Shengyun Information Technology (Tianjin) Co., Ltd. (盛雲信息技術(天津)有限公司), a company established in the PRC on June 13, 2013, and our directly wholly-owned subsidiary                      |
| “Shenzhen Lazy Online”            | Shenzhen Lazy Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012 and one of our Consolidated Affiliated Entities                          |
| “Specified Territories”           | Australia, the PRC and the United States   |
| “Spin-off”                        | the separate listing of our Shares on the Main Board, which is expected to be effected by way of the Global Offering, including the Preferential Offering                              |
| “Stabilizing Manager”             | Morgan Stanley Asia Limited  |

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## DEFINITIONS

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| “Stock Borrowing Agreement” | the stock borrowing agreement expected to be entered into between among others, THL A13 and the Stabilizing Manager, pursuant to which the Stabilizing Manager may borrow up to an aggregate of 22,705,600 Shares to cover any over-allocations in the International Offering |
| “Stock Exchange”            | The Stock Exchange of Hong Kong Limited   |
| “subsidiary(ies)”           | has the meaning ascribed thereto in section 15 of the Companies Ordinance   |
| “substantial shareholder”   | has the meaning ascribed to it in the Listing Rules   |
| “Suzhou Jingwei”            | Suzhou Jingwei Network Information Technology Co., Ltd. (蘇州經緯網絡信息科技有限公司), a company established in the PRC on July 25, 2007 and one of our Consolidated Affiliated Entities   |
| “Takeovers Code”            | The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time   |
| “TB Partners”               | Trustbridge Partners V, L.P., one of our Shareholders and a limited partnership established in the Cayman Islands   |
| “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 (stock code: 700)   |
| “Tencent Computer”          | Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent  |
| “Tencent Group”             | Tencent and its subsidiaries from time to time, including our Group   |
| “Tencent Growthfund”        | Tencent Growthfund Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the Cayman Islands as an investment vehicle on May 25, 2017 and a wholly-owned subsidiary of Tencent  |
| “Tencent Share(s)”          | ordinary shares of HK\$0.00002 each in the share capital of Tencent   |
| “Tencent Shareholder(s)”    | holder(s) of Tencent Shares   |
| “The Carlyle Group”         | The Carlyle Group L. P. and its affiliates  |

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## DEFINITIONS

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| “THL A13”                              | THL A13 Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the British Virgin Islands as an investment vehicle on February 1, 2013 and a wholly-owned subsidiary of Tencent |
| “Tianfang Jinma”                       | Beijing Tianfang Jinma Technology Development Co., Ltd. (北京天方金碼科技發展有限公司), a company established in the PRC on October 18, 2002 and one of our Consolidated Affiliated Entities  |
| “Tianjin Huawen Tianxia Book”          | Tianjin Huawen Tianxia Book Co., Ltd. (天津華文天下圖書有限公司), a company established in the PRC on June 23, 2009 and one of our Consolidated Affiliated Entities   |
| “Tianjin Jushi Wenhua Book”            | Tianjin Jushi Wenhua Book Sales Co., Ltd. (天津聚石文華圖書銷售有限公司), a company established in the PRC on June 26, 2009 and one of our Consolidated Affiliated Entities   |
| “Tianjin Zhongzhi Bowen Book”          | Tianjin Zhongzhi Bowen Book Co., Ltd. (天津中智博文圖書有限公司), a company established in the PRC on March 1, 2010 and one of our Consolidated Affiliated Entities   |
| “Tianjin Under Banyan”                 | Tianjin Under Banyan Information Technology Co., Ltd. (天津榕樹下信息技術有限公司), a company established in the PRC on November 17, 2009 and one of our Consolidated Affiliated Entities  |
| “Track Record Period”                  | the three financial years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017   |
| “Trustbridge Partners”                 | a leading growth equity investor with offices in Shanghai, Hong Kong and Boston, focusing on high-quality growth opportunities in China, such as TMT, consumer and healthcare sectors   |
| “Underwriters”                         | the Hong Kong Underwriters and the International Underwriters   |
| “Underwriting Agreements”              | the Hong Kong Underwriting Agreement and the International Underwriting Agreement   |
| “United States”, “U.S.” or “US”        | the United States of America, its territories, its possessions and all areas subject to its jurisdiction  |
| “US dollars”, “U.S. dollars” or “US\$” | United States dollars, the lawful currency of the United States   |
| “U.S. Securities Act”                  | United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder  |

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## DEFINITIONS

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|------------------------------------|---|
| “VIE” or “VIEs”                    | variable interest entity or variable interest entities  |
| “Wangwen Xinyue”                   | Beijing Wangwen Xinyue Technology Co., Ltd. (北京網文欣閱科技有限公司), a company established in the PRC on March 12, 2010 and one of our Consolidated Affiliated Entities                            |
| “WFOEs”, and each a “WFOE”         | Shanghai Shengting and Shanghai Yuechao   |
| “WHITE Application Form(s)”        | the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s name   |
| “White Form eIPO”                  | the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> |
| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited   |
| “Xiaoxiang College”                | Xiaoxiang College (Tianjin) Culture Development Co., Ltd. (瀟湘書院(天津)文化發展有限公司), a company established in the PRC on June 8, 2010 and one of our Consolidated Affiliated Entities            |
| “YELLOW Application Form(s)”       | the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS  |
| “%”                                | per cent  |

*Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.*

*The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.*

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains definitions of certain terms used in this document in connection with our Company and our business. Some of these may not correspond to standard industry definitions.*

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| AVSP   | Permit for Audio-Video Programs Transmitted (信息網絡傳播視聽節目許可證)  |
| original titles  | refers to online literary works that are first published on our platform   |
| WAP  | “Wireless Application Protocol”, herein refers to access via a mobile browser using this protocol  |
| DAUs   | <p>refers to daily active users who access our platform through our products or our self-operated channels on Tencent products at least once during the day in question.</p> <ul style="list-style-type: none"><li>• “DAUs” for a specific mobile app of ours are calculated using the number of unique devices that activate the app at least once during the day in question. If a mobile device accesses two different mobile apps of ours over the course of a day, it would, under this methodology, be counted as two DAUs.</li><li>• “DAUs” for a specific WAP or website of ours are calculated using the number of unique cookies (a commonly used tracking code) recorded by the Internet browsers that access such WAP or website at least once during the day in question.</li></ul> |
| IP   | intellectual property  |
| total DAUs of our products                                   | refers to the sum of the DAUs of all of our mobile apps, WAPs and websites.  |
| total DAUs of our self-operated channels on Tencent products | refers to the sum of (i) the number of unique devices that access our content channels on the <i>QQ Browser</i> and <i>Tencent News</i> mobile apps and (ii) the number of accounts that access our content channel on <i>Mobile QQ</i> , at least once during the day in question. If the same person accesses two different Tencent products over the course of a day, it would, under this methodology, be counted as two DAUs.   |
| MAUs   | refers to monthly active users who access our platform through our products or our self-operated channels on Tencent products at least once during the calendar month in question.   |

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## GLOSSARY OF TECHNICAL TERMS

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- “MAUs” for a specific mobile app of ours are calculated using the number of unique devices that activate the app at least once during the calendar month in question. If a mobile device accesses two different mobile apps of ours over the course of a calendar month, it would, under this methodology, be counted as two MAUs.
- “MAUs” for a specific WAP or website of ours are calculated using the product of (i) the number of registered users of such WAP or website who logged into their accounts during the calendar month in question, multiplied by (ii) a ratio that estimates the total active users over logged-in users of such WAP or website. The ratio is calculated as the average of DAUs divided by average daily logged-in users of each month between 2015 and 2016 for such WAP or website. In so doing, we assume such ratio stays the same over 2015 and 2016 for such WAP or website.

|  |  |
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| total MAUs of our products                                   | refers to the sum of the MAUs of all of our mobile apps, WAPs and websites.  |
| total MAUs of our self-operated channels on Tencent products | refers to the sum of (i) the number of unique devices that access our content channels on the <i>QQ Browser</i> and <i>Tencent News</i> mobile apps and (ii) the number of accounts that access our content channel on <i>Mobile QQ</i> , at least once during the calendar month in question. If the same person accesses two different Tencent products over the course of a calendar month, it would, under this methodology, be counted as two MAUs. |
| MPUs   | refers to monthly paying users, meaning the number of accounts that purchase our content or virtual items on a specific mobile app, WAP or website at least once during the calendar month in question.  |
| total MPUs of our products                                   | refers to the sum of the MPUs of all of our mobile apps, WAPs and websites during the calendar month in question. If a user account purchases content or virtual items on two different mobile apps over the course of a calendar month, it would, under this methodology, be counted as two MPUs.   |
| total MPUs of our self-operated channels on Tencent products | refers to the sum of the number of accounts of <i>Mobile QQ</i> , <i>QQ Browser</i> or <i>Tencent News</i> that purchase content or virtual items on our self-operated channels on such products, at least once during the calendar month in question.   |

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “aim”, “aspire”, “objective”, “target”, “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our future general and administrative expenses;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this document.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.



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## RISK FACTORS

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*An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-looking Statements" in this document.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### **We are subject to risks associated with operating in a rapidly developing and evolving industry.**

The Internet and the online literature industries are rapidly evolving and are subject to continuous technological developments and changing customer demands. As the leading online literature platform that generates a substantial majority of its revenues from online reading and intellectual property operations, our future success depends largely in part on our ability to offer high quality literary content on a continuing basis, to enhance our existing services, to explore opportunities for the monetization of our literary works and to introduce new services with features that meet evolving technological developments, user preferences and requirements, all in a timely and cost-effective manner. For example, we must develop and promote new services to address the rapidly developing mobile Internet market in order to maintain our competitive position. If we do not adapt our services to such changes in an effective and timely manner, we may suffer from decreased writer pool and user traffic, which may result in a reduced amount of new online literary content provided on our platform or a decrease in our online reading revenues. In addition, if we adopt new technologies which turn out to be less proven, and user experience suffers as a result, our users may use our platform less often. Furthermore, changes in technologies may require substantial investments in product development as well as in modification of products, services or infrastructure. We may not execute our business strategies successfully due to a variety of reasons such as technical hurdles, misunderstanding or erroneous prediction of market demand or lack of necessary resources. Failure to keep up with technological development or the changing requirements of users may have negative impact to our user experience and may result in our offerings and services being less attractive than those provided by our competitors, which in turn may materially and adversely affect our business, results of operations and prospects.

A number of factors could have a negative impact on the success of our business such as failure to retain and expand our user base to generate online reading revenues and stimulate the vibrancy of our online interactive community among writers, readers and editors, failure to increase revenues from our intellectual property operations, and delays or difficulties in developing, integrating or customizing new technologies and services.

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## RISK FACTORS

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**Online reading accounts for a majority of our revenues. If we fail to retain our user base or if user engagement ceases to grow or declines or if we fail to maintain or continue to increase our paying ratio, our online reading revenues will decrease, which may materially and adversely affect our business, financial condition, results of operations and prospects.**

We offer both premium content and free content to our users through our products, our self-operated channels and various third-party platforms. We charge for the premium content. A majority of our revenues are generated from online reading. In 2014, 2015, 2016 and the six months ended June 30, 2017, our online reading revenues were RMB453.0 million, RMB970.9 million, RMB2.0 billion and RMB1.6 billion, which accounted for 97.2%, 60.5%, 77.1% and 84.9% of our total revenues, respectively. We typically offer the initial chapters of our premium literary works to our users for free and charge them for the remaining chapters of such works. Our users may choose to only pay for the content they consume or subscribe to a monthly plan, which allows them unlimited access to a selected group of literary works within a month.

The success of our business depends largely on our ability to generate sufficient user traffic through the high quality literary content so as to retain existing and attract new readers that are willing to pay for the premium content. We will continue to rely on online reading as an important revenue stream in the future. To attract and retain our paying users, we must continue to offer high-quality and diversified online literary content that meets our users' fast changing appetite and enhance the interaction between writers and readers. To that end, we must continuously anticipate changing trends in readers' appetite and respond to such changes by generating suitable content in a timely and effective manner. We may not be able to maintain or continue to increase our paying ratio to achieve expected online reading revenues. If we fail to cater to the fast changing needs and preferences of our users, in particular our younger generation of users whose reading appetite may evolve from time to time and who may have higher demand in the quality and entertaining level of literary works, and, as a result, fail to deliver suitable content and satisfactory user experience, our paying users will not find our premium content attractive or may find our paid reading fees more expensive. Consequently, they may reduce their spending on our premium literary works, leading to reduced user traffic and user base. As we generate a majority of our revenues from our paying users and also leverage our highly engaged user base for monetization of our intellectual property, failure to retain existing or attract new readers to pay for our online literary works may materially and adversely affect our business, financial condition, results of operations and prospects.

**If we fail to control our content-related costs, lack popular literary content that can be monetized, fail to acquire various forms of copyrights of such literary content for monetization, or fail to attract and retain writers or maintain the business relationships with the key writers, our business, results of operations and profitability will be materially and adversely affected.**

Popular and quality content is the core driver and foundation of our content monetization business. Content-related costs, including content costs and amortization of intangible assets in the form of copyrights we acquired, have historically accounted for the largest portion of our cost of revenues. In 2014, 2015, 2016 and the six months ended June 30, 2017, content-related costs constituted 78.8%, 52.9%, 64.4% and 66.8%, respectively, of our total cost of revenues. We generally license the copyright of the content published on our platform on an exclusive basis, either at fixed

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## RISK FACTORS

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prices or pursuant to revenue-sharing arrangements, under which the writers receive royalties based on sales and other forms of monetization of their works. In addition to the original literary works generated by our online platform, we also source high quality content from external popular writers, leading publishers and other third-party literary platforms. Due to the improving monetization prospects of high quality original content, there is increasing competition for popular literary works. Furthermore, as the market develops, the expectations of copyright owners may continue to rise, and as such, they may demand higher licensing fees for such content. As a result, we expect our content-related costs to increase on an absolute basis as we expand our literary content library.

Moreover, we rely primarily on our writers, especially established writers, to create original literary works. However, we may not be able to continue to attract and retain writers by offering more competitive and favorable terms than our competitors or higher licensing fees that our writers may request. In addition, although our contracted writers agree to create literary content exclusively for us for a certain period of time, we cannot control their productivity or the quality of their works produced within the contract term. As there is no barrier for our registered users to publish their literary works on our platform, we cannot guarantee that the content created by non-contracted writers on our platform will be of sufficient quality to attract users to our platform. Additionally, any disputes or legal proceedings with our key writers, especially prominent best-selling writers that create popular and high quality literary content, may disrupt our business relationships with them. For details, see the section headed “Business — Legal Proceedings and Compliance” in this document. Therefore, we cannot assure you that we will retain sufficient online literary works with monetization value or control a broad range of copyrights for high quality literary works. If we cannot successfully generate expected revenues from such content, our business operations, financial results and profitability will be materially and adversely affected. If we lack popular literary content that can be monetized or fail to acquire a broad range of copyrights of such literary content for monetization, our business and operating results may be materially and adversely affected.

**We face competition in every aspect of our businesses. If we fail to compete effectively, we may lose users or writers, which could materially and adversely affect our business, financial condition and results of operations.**

We face competition in every aspect of our business, and particularly from other companies that seek to provide platform services for literary content creation, consumption and distribution. We compete primarily with other online literature websites and mobile apps in China. We also compete for Internet users’ reading time with content providers that focus exclusively on a specific genre of content also featured by us, including popular We Media (自媒體) accounts that focus on articles related to literature, history, anime or other of the genres that our library covers, and physical book publishing companies in China. See the section headed “Business — Competition” in this document. Our competitors may compete with us in a variety of ways, including obtaining exclusive licensing rights of popular literary content, attracting writers with more favorable contractual terms, conducting brand promotions and other marketing activities, adopting more aggressive pricing policies and making acquisitions. Such competition may significantly increase the market price for literary content, cause us to lose our existing or potential writers and readers, and therefore materially and adversely affect our business, financial condition and operational results.

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In addition, certain online literature platforms, digital content providers or physical book publishers may continue to offer pirated content for free or at lower prices. As a result, readers may be diverted away from our platform. Furthermore, as the online literature industry in China is constantly evolving, our current or future online literature competitors may compete more successfully as the industry matures. In addition, any of our current or future competitors may be acquired by, receive investments from or enter into other strategic or commercial relationships with larger, more established and/or better financed companies and therefore obtain significantly greater financial, marketing, licensing and development resources than we do. If any of our competitors achieves greater market acceptance than we do or are able to offer more attractive or comparable literary content at lower cost, our users, writers and market share may decrease, which may have a material adverse effect on our business, financial condition and operational results.

**Our business, prospects and financial results may be subject to new terms agreed upon in the business contracts negotiated in the future with third-party content distribution platforms as well as our relationship with such platforms.**

We entered into distribution agreements with various third-party platforms to distribute our literary content. Such platforms include leading Internet and telecommunications companies in China. However, there can be no assurance that our agreements with those distribution platforms will be extended or renewed after their respective expiration or that we will be able to extend or renew such agreements on terms and conditions favorable to us. In addition, if any of our distribution partners breaches its obligations under any of these agreements or refuses to extend or renew it when the term expires, we may lose all or a portion of the user base we have developed through its platform. We may have legal or other disputes with third-party distribution platforms that may affect our relationship with such platforms or have an adverse effect on our business. In August 2017, Migu Digital Media Co., Ltd. (咪咕數字傳媒有限公司) (“Migu”), a subsidiary of China Mobile Limited (“China Mobile”), commenced legal proceedings against us in Hangzhou Intermediate People’s Court in China for ceasing to update a number of literary products on Migu’s reading platform, *Migu Reading*, in purported breach of contracts. Based on the legal advice of Co-effort, the legal advisor we engaged for these legal proceedings as of the Latest Practicable Date, we believe that Migu’s claims for damages are without merit and intend to vigorously contest it. However, as the trial has not yet commenced and the outcome of these legal proceedings, including the possibility that the PRC courts may uphold all or part of Migu’s claims, remains uncertain, we are unable to determine the impacts of the proceeding on our business, financial condition and results of operations. Irrespective of the outcome of these legal proceedings, our relationship with Migu and China Mobile may be negatively impacted and our cooperation may cease in the future. For details of these legal proceedings, see section headed “Business — Legal Proceedings and Compliance” in this document.

**Given the Internet business is highly regulated in China, our failure to obtain and maintain requisite approvals, licenses or permits applicable to our business or any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and operational results.**

The PRC government regulates the Internet industry extensively, including foreign ownership of, and the licensing requirements pertaining to, companies in the Internet industry. A number of regulatory authorities, such as the Ministry of Commerce, or MOFCOM, the Ministry of Culture, or

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MOC, the Ministry of Industry and Information Technology, or MIIT, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRT, the Ministry of Culture and the Cyberspace Administration of China, or CAC, oversee different aspects of the Internet industry. These governmental authorities together promulgate and enforce laws and regulations that cover many aspects of the telecommunications, Internet information services, Internet publishing industries and online audio-visual products services, including entry into such industries, scope of permitted business activities, licenses and permits for various business activities and foreign investments into such industries. Operators are required to obtain various government approvals, licenses and permits in connection with their provision of Internet information services, Internet publication services, online audio-visual products and other related value-added telecommunications services.

We cannot assure you that we have obtained or applied for all the permits and licenses required for conducting our business in China or will be able to maintain our existing permits and licenses or obtain any new permits and licenses if required by any future laws or regulations. For detailed discussion of certain licenses and permits relevant to our business, see the section headed “Business — Licenses and Permits” in this document. If we fail to obtain and maintain approvals, licenses or permits required for our business, we could be subject to liabilities, penalties and operational disruption and our business could be materially and adversely affected. We may also be liable for fines or a penalty of confiscating illegal gains. See the sections headed “Business — Legal Proceedings and Compliance” and “Business — Licenses and Permits” in this document for further details.

**Failure to comply with PRC laws and regulations prohibiting the publication and distribution of pornographic content may subject us to liabilities, administrative actions or penalties imposed by the relevant PRC regulatory authorities, and may have a material and adverse impact on our business, financial condition and operational results.**

PRC laws and regulations require us to ensure that our content does not include any obscenity or pornography, to immediately delete any obscene or pornographic content, and to keep records and report to the governmental authorities in charge. As advised by our PRC Legal Advisor, under applicable PRC laws and regulations, the determination of obscenity and pornography is within the power of relevant regulatory authorities, including but not limited to the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications (全國“掃黃打非”工作小組辦公室), the CAC, the Ministry of Public Security (公安部), the MOC, the GAPPRT and their respective local counterparts.

Failure to comply with the relevant PRC laws and regulations on a timely and adequate basis may subject us to liability, administrative actions or penalties imposed by the relevant competent PRC authorities. The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business and have a material and adverse impact on our business, financial condition and operational results. In the worst scenario, the competent PRC authorities could revoke our business and operating licenses, shut down our content distribution platforms, or require us to discontinue or restrict our operations.

**Regulation and censorship of information disseminated online and offline in China may adversely affect our business and subject us to liability for content posted on our platform, given the large amounts of contents being uploaded or disseminated on our platform.**

The PRC government has enacted laws and regulations governing the publishing industry, Internet access and distribution of literary content and other information over the Internet. In the past,

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the PRC government has banned the distribution of content and information over the Internet or publication of books that it believes to be in violation of the PRC laws and regulations, including content that it believes is obscene or defamatory, incites violence, endangers the national security, or contravenes national interest. If the PRC regulatory authorities were to take any action to limit or prohibit the distribution of literary content through our or our partner's platforms or produced in physical book form by us, or if they find our literary content objectionable or otherwise in violation of PRC laws or regulations, and impose penalties on us or take other administrative actions against us in the future, our business could be significantly and negatively affected.

Subject to our content monitoring process, our registered users can upload to any of our websites and mobile apps any type of literary content and can upload certain graphical files for limited purposes, such as updating user profiles. We require our users to confirm before each upload that the content to be uploaded is in compliance with PRC laws and regulations and does not infringe other parties' legal rights, including copyrights, and to indemnify us against all damages arising from third-party claims against us resulting from such uploaded or linked content. In addition, we have adopted and implemented strict internal procedures aiming to ensure that no prohibited or pirated literary or other user-generated content is displayed on our platform or included in our content library. We also have a dedicated content monitoring team which is responsible for monitoring and preventing the public release of inappropriate or illegal content, including user-generated content, on our mobile apps and websites. However, given the large user base we have, we may not be able to fully control the content uploaded by our users and as most of our users are individuals, and they may not be able to fully indemnify us for all damages, including regulatory penalties or third-party claims, caused by the content they uploaded. Moreover, because the definition and interpretation of prohibited content are in many cases vague and subjective, it is not always possible to determine or predict what content might be prohibited under existing restrictions or restrictions that might be imposed in the future. Failure to identify and prevent illegal or inappropriate content from being displayed on our platform may subject us to severe sanctions and penalties.

We are required to comply with the Trial Method on Evaluation of Social Benefits of Online Literature Publication Service Units (網絡文學出版服務單位社會效益評估試行辦法) (the "**Trial Method**") which took effect from July 1, 2017. As advised by our PRC Legal Advisor, we understand that the Trial Method requires self-evaluation reports to be submitted by online literature publication service units to the local administrative bodies by the end of January of every calendar year and evaluation of the online literature publication service units by the local government authorities. In accordance with the Trial Method in its current form, we expect to complete such filing by January 2018. However to the best of our knowledge after consultation with our PRC Legal Advisor, the relevant local government authority has not yet published or launched any implementation measures relating to the Trial Method. We do not anticipate any obstacles in complying with the Trial Method in its current form. However, there is no assurance that we will be able to fully comply with the relevant implementation measures when they become available. In such event, we may be subject to negative evaluation feedback provided by or even administrative sanctions or penalties imposed by the relevant government authorities which may have a material adverse effect on our business operations.



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**We cannot guarantee that our current or future monetization strategies related to our intellectual property operations will be successfully implemented or will generate sustainable revenue, profit or positive operating cash flows. Our failure to identify appropriate entertainment industry partners to maximize the monetization potential of our popular literary works for our intellectual property operations may also materially and adversely affect our business and financial condition.**

We have experienced rapid growth in our intellectual property operations, which primarily involve licensing our high quality literary titles to content adaptation partners for adaptation into various entertainment products. In 2014, 2015 and 2016 and the six months ended June 30, 2017, the amount of revenues generated from our intellectual property operations were RMB12.1 million, RMB162.8 million, RMB247.4 million and RMB155.7 million, which accounted for 2.6%, 10.1%, 9.7% and 8.1% of our total revenues, respectively. We retain existing content adaptation partners and develop new partnerships in order to maximize the monetary value of our literary titles. However, we cannot assure you that this level of significant growth will be sustainable or fully achievable in the future. If we fail to license our content for adaptation into suitable entertainment formats or accurately forecast the market reaction with respect to our content adaptation products, our intellectual property operations may not succeed, which would negatively affect our business performance. We had a net cash flow used in operating activities in the amount of RMB46.2 million for the six months ended June 30, 2016. Although we had a net cash flow generated from operating activities in the amount of RMB325.3 million for the six months ended June 30, 2017, we cannot assure you that we will be able to continue to generate net profits or maintain positive cash flow from operating activities in the future or our attempts to increase our intellectual property operations' revenues will be successful or profitable. Therefore the future revenue and income potential of our intellectual property operations may be difficult to evaluate.

Moreover, if we fail to effectively identify and develop popular literary works with adaptation potential or properly maintain our existing business relationship with our content adaptation partners in the future or develop new business relationships, our content adaptation partners may be less likely to source content from and develop business cooperation with us, the occurrence of which may materially and adversely affect our business, financial condition, operational results and prospects. Although we have established several joint ventures and other forms of cooperation with a number of content adaptation partners in China, we have a short track record and limited experiences in content monetization through joint venture investments. In addition, we may not have sufficient control over the adaptation process and quality of the online games or animated works adapted from our popular content and produced, on an outsourced basis, by our partners, and we may be negatively affected or even held liable for the activities or the financial soundness of our content adaptation partners.

**Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business and competitive position.**

Intellectual property is crucial to our competitiveness and success. Unauthorized use of our intellectual property may adversely affect our business and reputation. In particular, piracy is a long-standing problem in China, which is evident from pirated books being sold on the street as well as from search results on online search engines. Many websites and mobile apps in China attract user

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traffic by making pirated content available for free and derive advertising revenues from such pirated content. Online literary piracy, facilitated by Internet search engines, undermines the paid reading model and has been the primary impediment to the greater development of China's online literature industry. In addition, although our licensing contracts with writers typically require them to provide us with the exclusive rights to the content they provide for our platform, we cannot assure you that our writers will not post their literary works on other platforms in violation of their contracts with us. Our writers are obligated to indemnify us for any losses resulting from violations of their obligations under the licensing contracts with us. However, we cannot assure you that we will be able to recover such losses from them. If our third-party distribution partners distribute any content on their platforms that violates our contractual arrangements, it may damage our interests and have an adverse impact on the results of our operations. In particular, if our third-party distribution partners display any pirated content of our literary works, our readers may opt to such pirated content instead of paying for our literary works, and our paying ratio will accordingly be negatively impacted due to the distribution of such pirated content.

We rely on a combination of copyright, trademark, patent, trade secret laws and restrictions on disclosure as well as non-competition, confidentiality and license contracts with our employees, editors, writers, users, business partners or others to protect our intellectual property rights and to meet the obligations we owe to third parties from whom we license intellectual property rights. Nevertheless, these afford only limited protection and it can be difficult and expensive to police unauthorized use of intellectual property that we own or license. We have taken, and will continue to take, a variety of actions to combat piracy. However, we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual properties, particularly in countries where the laws may not protect our property rights as fully as in more developed countries. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business.

Intellectual property rights historically have not been enforced in the PRC as vigorously as in certain developed countries such as the United States, and intellectual property theft is a serious risk for companies operating in the PRC. Moreover, we may enforce our intellectual property rights through litigation, which could result in substantial costs, divert the attention and resources of our management personnel and disrupt our business. The validity and scope of any claims relating to our copyrights or other intellectual property may involve complex legal and factual questions and analyses and, as a result, the outcome may be highly uncertain. Failure to protect our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations as well as severely harm our competitive position.

**We and our writers have been, and may continue to be, subject to intellectual property infringement claims which could cause us to be less competitive, or misappropriation claims by third parties which may force us to incur substantial legal expenses and, if determined adversely against us or our writers, may materially affect our business.**

We have been involved in litigation based on allegations of infringement of third-party copyright and other rights, such as online distribution rights, due to the content available on our platform. For lawsuits against us that we did not win, we were ordered by various PRC courts to pay immaterial amounts of damages in 2014, 2015, 2016 and the first half of 2017.



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Although we have adopted internal procedures to screen, monitor and remove the content displayed on our platform to comply with third-party intellectual property rights and PRC laws and regulations, we may not be able to identify and remove all potentially infringing content in a timely manner due to the large amount of literary content uploaded by our writers and users each day. Accordingly, we may, from time to time, be exposed to intellectual property rights infringement or misappropriation claims by third parties, including competing online literature platforms, relating to the literary content posted on our online platform or produced in physical book form. We may also be exposed to other claims by third-party content cooperation partners relating to our content cooperative relationships. As a publicly listed company, we may be exposed to increased risk of litigation. In particular, some literary works posted on certain of our literature websites prior to our acquisition of the operators of such websites may infringe the copyrights or other intellectual property rights of third parties. We cannot assure you that there will not be any intellectual property rights infringement, misappropriation or other claims by any third parties in the future. In addition, our writers could post content to our platform that violates others' intellectual property rights, including third-party contractual rights in situations where, without our knowledge, a writer had signed an agreement to provide content to another online literature platform on an exclusive basis but posts such content on our platform. Although we require our writers to represent that they have the right to their content before posting it on our platform and require writers with whom we sign licensing contracts to indemnify us against any violations by the writers of their contractual obligations, we cannot assure you that intellectual property right infringements or misappropriation claims resulting from our writers' violations of their contractual obligations to us will not occur. Moreover, despite indemnification arrangements with our writers, they may not have the financial resources to fulfill their indemnity obligations to us under any such infringement or misappropriation claim.

Defending against any of these current or future claims could be both costly and time-consuming, and could significantly divert the efforts and resources of our management and other personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, or subject us to injunctions prohibiting the distribution and marketing of the relevant literary content. To the extent that licenses are not available to us on commercially reasonable terms or at all, we may be required to expend considerable time and resources sourcing alternative content, if any, or we may be forced to delay or suspend the sale and distribution of the relevant literary content. Furthermore, any charge against us or our writers for copyright infringement may also affect our ability to monetize the corresponding online literary content to the full extent and damage our reputation as a source of high quality content to our content adaptation partners. Protracted litigation or adverse publicity could also result in our users or potential users deferring, reducing or cancelling their purchase of our premium literary content. In addition, we may be subject to administrative actions brought by the National Copyright Administration of the PRC or its local branches for alleged copyright infringement. As a result of such claims, litigations and administrative actions, our business, brand image and reputation could be materially and adversely affected.

**If we are no longer able to benefit from the synergy of our business cooperation with Tencent, our business may be adversely affected.**

Our ultimate controlling shareholder and strategic partner, Tencent, is one of the largest Internet companies in the world. Our business has benefited significantly from Tencent's brand name and

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strong market position in China. In addition, we have benefited from distributing our content through our self-operated channels on Tencent products, which provides Tencent's large number of users with access to our literary content. We also cooperate with Tencent in a number of other areas, including content adaptation, promotion services, IT services and payment services. See the section headed "Relationship with our Controlling Shareholders" in this document. However, we cannot assure you that we will continue to maintain our cooperative relationships with the Retained Tencent Group in the future. To the extent we cannot maintain our cooperative relationships with the Retained Tencent Group at reasonable prices or at all, we will need to source other business partners to provide services such as distribution channels, content adaptation cooperation, promotion services, as well as IT and payment services, which could result in material and adverse effects to our business and results of operations.

**We have distributed and expect to continue to distribute our content through our self-operated channels on Tencent products. If any of these channels fails or is unwilling to cooperate with us on reasonable terms, or if Tencent's market position, brand recognition or financial condition experiences any negative development, our online reading revenues may be adversely affected.**

Our business has benefited significantly from Tencent's brand name and strong market position in China. In addition, we are uniquely positioned with access to a host of popular Tencent products, including *Mobile QQ*, *QQ Browser*, *Tencent News* and *Weixin Reading*, which provide Tencent's large number of users with access to our literary content. In the six months ended June 30, 2017, the average MAUs of our self-operated channels on Tencent products were 103.5 million. We have cooperated with Tencent in a number of other areas, including content adaptation, promotion services, IT services and payment services, and entered into business cooperation agreements with the Retained Tencent Group with respect to the distribution of our content on Tencent products, and we share revenues with them according to the terms and conditions of these agreements. See the section headed "Business — Distribution Platforms — Our Self-operated Channels on Tencent Products" in this document for further details. We are of the view that we do not and will not significantly rely on the Retained Tencent Group as a result of these transactions. Please refer to the section headed "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Operational Independence" in this document for further details.

However, we cannot assure you that we will continue to maintain our cooperative relationships with the Retained Tencent Group at reasonable prices or at all in the future. In such event, we are unable to continue our access to Tencent products in the same manner as we currently do and will need to source other business partners to provide services such as distribution channels, content adaptation, cooperation, promotion services as well as IT and payment services, which could result in material and adverse effects to our business, financial conditions and results of operations.

**Any negative development in Tencent's market position, brand recognition or financial condition may materially and adversely affect our marketing efforts and the strength of our brand.**

We have benefited significantly and expect to continue to benefit significantly from Tencent's strong brand recognition and broad user base, which provide us credibility and a broad marketing reach. If Tencent loses its market position, the effectiveness of our marketing efforts through our

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association with Tencent may be materially and adversely affected. In addition, any negative publicity associated with Tencent or any negative development with respect to Tencent's market position, financial condition, or compliance with legal or regulatory requirements in China, will likely have an adverse impact on the effectiveness of our marketing efforts, as well as our reputation and brand.

**Although we generated a net profit for the year of 2016, we incurred net losses in both 2014 and 2015, and we may not be able to achieve profitability in the future.**

We experienced net losses of RMB21.1 million and RMB354.2 million in 2014 and 2015, respectively. Although we have generated a net profit in 2016, we cannot assure you that we will be able to continue to generate profits in the future. Our ability to achieve profitability is affected by various factors, many of which are beyond our control. For example, our revenues and profitability depend on the continuous development of the online literature industry in China, our users' spending on online literary works as well as our strategies to monetize our popular content. We cannot assure you that online paid reading will become more widely accepted in China or that the users will increase their spending on online literary works. Content-related costs have historically accounted for the majority of our cost of revenues. Due to the increasing competition for popular literary works, we expect our content-related costs to increase on an absolute basis. See the paragraph headed “— Risks Relating To Our Business and Industry — If we fail to control our content-related costs, lack popular literary content that can be monetized, fail to acquire various forms of copyrights of such literary content for monetization, or fail to attract and retain writers or maintain the business relationships with the key writers, our business, financial results and profitability will be materially and adversely affected” in this section.

If we cannot successfully offset our increased costs and expenses with an increase in revenues, our margins, financial condition and results of operations could be materially and adversely affected. We may incur losses in the future due to our continued and increased investments in content, technology, marketing, human resources and other aspects of our operations. We may also incur losses in the future due to changes in the macroeconomic and regulatory environment, competitive dynamics and our inability to respond to these changes in a timely and effective manner.

**We had net current liabilities as of December 31, 2014 and 2015.**

We had net current liabilities of RMB27.4 million and RMB204.9 million as of December 31, 2014 and 2015, respectively. See the section headed “Financial Information — Discussion of Certain Key Balance Sheet Items” in this document for more details. Although we recorded net current assets as of December 31, 2016 and June 30, 2017, we cannot assure you that we will be able to maintain our liquidity and continue to record net current assets. We may have net current liabilities again in the future, the occurrence of which could have an adverse impact on our financial condition and results of operation.

**We have experienced rapid growth in the past, but our limited operating history as a combined entity between China Literature Limited and Cloudary makes it difficult to evaluate our business and growth prospects. We may not be able to manage our growth effectively or achieve similar growth prospects in the future.**

We have experienced rapid growth since we commenced our online literature business. We acquired Cloudary in December 2014, the purpose of which was to acquire its literary content, its

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several literary websites, and create a leading market position in the online literature market in China with the largest user base, deepest writer pool, most comprehensive content library and strongest monetization capability. However, some of the benefits that we expect to achieve from the acquisition may not be achieved or, if achieved, may not be achieved in the time frame in which we expected. Whether these anticipated benefits are realized depends on future events and circumstances, some of which are beyond our control. We expect our growth trend to continue as we expand our user base, develop our content library and explore new market opportunities. To this end, we need to continuously enhance and upgrade our infrastructure and technology, improve our operational and financial systems, procedures and controls, and expand, train and manage our growing employee base. In addition, we must maintain and expand our relationships with writers, users, content distribution partners, content adaptation partners and other third parties. However, due to our limited operating history as a combined company, we may not be able to manage our expansion effectively because our current infrastructure, systems, procedures and controls will be adequate to support our expanding operations and our historical growth rate may not be indicative of our future performance. We cannot assure you that we will grow at the same rate as we had in the past.

**Our strategy of making strategic acquisitions and investments may fail and may result in material and adverse impact to our financial condition and results of operations.**

As part of our business growth strategy, we have completed several acquisitions in recent years and may in the future acquire businesses or platforms that we believe can expand and strengthen our content sourcing, distribution and monetization, as well as our technological capacities. Our ability to implement our acquisition strategy will depend on our ability to identify suitable targets, our ability to reach agreements with them on commercially reasonable terms and the availability of financing to complete acquisitions, as well as our ability to obtain any required shareholder or government approvals. Our strategic acquisitions and investments could subject us to uncertainties and risks, including:

- high acquisition and financing costs;
- potential ongoing financial obligations and unforeseen or hidden liabilities;
- potential loss of key business relationships and the reputations of the businesses we acquire;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities;
- uncertainty of entering into markets in which we have limited or no experience and in which competitors have stronger market positions;
- costs associated with, and difficulties in, integrating acquired businesses and managing a larger business;
- potentially significant goodwill impairment charges;

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- potential claims or litigation regarding our board’s exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board;
- diversion of our resources and management attention;
- potential contingent liabilities in connection with our commercial arrangement agreed with the existing shareholders of certain acquired companies, such as our undertakings to acquire the remaining equity interests held by certain existing shareholders at an agreed price or exchange ratio within an agreed time period and any associated legal proceedings. We cannot assure you that Ms. Zhang Baohua, the minority shareholder of Tianjin Under Banyan, will not commence any other legal proceedings with respect to the agreement entered into with her relating to Tianjin Under Banyan, or that any such proceedings will not involve a claim for a material amount of damages or remedies other than damages, irrespective of the merits of the underlying claim made by her. For detailed discussion, see the section headed “History, Reorganization and Corporate Structure — Tianjin Under Banyan Information Technology Co., Ltd.” in this document;
- credit risk arising from our investments in redeemable shares of associates and changes in fair value of such investments. For detailed discussion on the valuation of our investments in redeemable shares of associates, see the section headed “Financial Information — Discussion of Certain Key Balance Sheet Items — Investments in Redeemable Shares of Associates” in this document; and
- credit risk arising from our trade receivables at the end of each reporting period mainly due from certain telecommunication operators and content distribution partners in mainland China.

Our failure to address these uncertainties and risks may have a material adverse effect on our liquidity, financial condition and results of operations. In addition, we establish strategic alliances with various third parties to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counter-party, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business and results of operations.

**Change in business prospects of acquisitions may result in goodwill impairment and impairment of our other intangible assets acquired in a business combination, which could negatively affect our reported results of operations.**

We record acquisition goodwill, investments in affiliate companies and acquired intangible assets on our balance sheet in connection with such acquisitions and investments. In December 2014, we acquired Cloudary. We paid a consideration of RMB4.5 billion for the acquisition, and goodwill of approximately RMB3.7 billion arose from the acquisition, which was attributable to the acquired market shares and economies of scale expected to be derived from combining Cloudary with our operations. Goodwill accounted for over 40% of our total assets during the Track Record Period. We

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are required to review our acquisition goodwill for impairment at least annually and review our investments in affiliate companies and acquired intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, including a decline in company value and a slowdown in our industry. If the carrying value of our acquisition goodwill, investments in affiliate companies or acquired intangible assets are determined to be impaired, we would be required to write down the carrying value or record charges to earnings in our financial statements during the period in which our acquisition goodwill, investments in affiliate companies or acquired intangible assets is determined to be impaired, which would materially and adversely affect our results of operations. For detailed discussion on the relevant impairment testing and sensitivity analysis performed for goodwill and other intangible assets, see the sections headed “Financial Information — Critical Accounting Policies and Estimate — Intangible Assets” and “— Discussion of Certain Key Balance Sheet Items — Intangible Assets” in this document.

**We may grant additional share-based awards pursuant to the RSU Plan, which may result in increased share-based compensation expenses and dilution to the shareholding of existing shareholders.**

We have adopted the RSU Plan for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We have incurred share-based compensation expenses of RMB6.6 million, RMB131.8 million, RMB78.0 million and RMB52.6 million for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017, respectively, and we may grant additional share-based awards pursuant to the RSU Plan. Any additional grant of share-based awards by us pursuant to the RSU Plan may further increase our share-based compensation expenses, and may dilute existing shareholders' shareholding should any additional number of Shares be issued.

**Tencent, our ultimate controlling shareholder, has had and will continue to have effective control over the outcome of shareholder actions in our company. The interests of Tencent may not be aligned with the interests of our other shareholders.**

Tencent will continue to be our ultimate controlling shareholder immediately after the completion of the Global Offering. Tencent's voting power gives it the power to control certain actions that require shareholder approval under Cayman Islands law, our Memorandum and Articles of Association and HKIAC requirements, including approval of mergers and other business combinations, changes to our Memorandum and Articles of Association, the number of shares available for issuance under any share incentive plans, and the issuance of significant amounts of our ordinary shares in private placements.

Tencent's voting control may cause transactions to occur that might not be beneficial to you as a holder of the Shares and may prevent transactions that would be beneficial to you. For example, Tencent's voting control may prevent a transaction involving a change of control of us, including transactions in which you as a holder of the Shares might otherwise receive a premium for your securities over the then-current market price. In addition, Tencent is not prohibited from selling the controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your Shares. If Tencent is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of Tencent,



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and may do so in a manner that could vary significantly from that of Tencent. In addition, the significant concentration of share ownership may adversely affect the trading price of the shares due to investors' perception that conflict of interest may exist or arise. See the paragraph headed “—Risks Relating To Our Business and Industry—We may have conflict of interest with Tencent and, because of Tencent's controlling ownership interest in our Company, we may not be able to resolve such conflict on terms favorable to us” in this section.

**We may have conflict of interest with Tencent and, because of Tencent's controlling ownership interest in our Company, we may not be able to resolve such conflict on terms favorable to us.**

Conflict of interest may arise between Tencent and us in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified mainly include the following:

- *Agreements with the Retained Tencent Group.* We have entered into various framework agreements with Tencent Computer (for itself and other members of the Retained Tencent Group) governing the transactions between us and the Retained Tencent Group, which include but are not limited to, distribution of our literary works through the Retained Tencent Group's products and intellectual property cooperation with the Retained Tencent Group. See the section headed “Connected Transactions” in this document for further details of these framework agreements. Tencent may use its control over us to prevent us from bringing a legal claim against Tencent in the event of a contractual breach, notwithstanding our contractual rights under the agreements and any other agreement we may enter into with the Retained Tencent Group from time to time.
- *Allocation of business opportunities.* There may arise business opportunities in the future that both we and Tencent are interested in and which may complement the respective businesses. Due to the controlling interest of Tencent and its leading market position and brand in China, Tencent may decide to take up such opportunities itself, which would prevent us from taking advantage of those opportunities.
- *Employee recruiting and retention.* Because both Tencent and we are operating in the Internet industry in China, we may compete with Tencent in the hiring of employees.
- *Sale of shares in our Company.* Tencent may decide to (through THL A13, Tencent Growthfund and/or Qinghai Lake) sell all or a portion of the Shares that it holds to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other Shareholders.
- *Developing business relationships with Tencent's competitors.* So long as Tencent remains our controlling shareholder, we may be limited in our ability to do business with its competitors. This may limit our ability to market our services for the best interests of our Company and our other Shareholders.

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- *Our Directors and employees may have conflicts of interest.* Our Directors Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Li Ming are also employees of Tencent. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for Tencent and us.

Although the Company will become a stand-alone public company, we expect to operate, for as long as Tencent is our ultimate Controlling Shareholder, as an affiliate of Tencent. Tencent may from time to time make strategic decisions that it believes are in the best interests of its business as a whole. These decisions may be different from the decisions that we would have made on our own. Tencent's decisions with respect to us or our business may be resolved in ways that favor Tencent and therefore the Tencent Shareholders, which may not coincide with our interests and the interests of our other Shareholders. After we become a stand-alone public company, we will have an audit committee, consisting of independent non-executive Directors, to review and approve all proposed connected transactions as defined in the Listing Rules, including any transactions between us and the Retained Tencent Group. However, we may not be able to resolve all potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder. For further details as to how we address such conflicts, see the section headed "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Management Independence" in this document.

**We depend on numerous service providers to provide services that are critical to our business, which exposes us to various risks that may materially and adversely affect our reputation, business, financial condition and results of operations.**

We currently use numerous third-party or affiliated service providers to provide services that are critical to our businesses. We have engaged third-party or affiliated service providers, including Tencent, to provide online payment, content distribution, data support and other services. If any of these service providers breaches its obligations under the contractual arrangements to provide such service to our platform, or refuses to renew these service agreements on terms acceptable to us, or at all, we may not be able to find a suitable alternative service provider. Similarly, any failure of or significant quality deterioration in such service provider's service platform or system could materially and adversely affect user perception of our platform and may also result in users reducing visits or cancelling their purchase of our premium literary content. In addition, our platform relies on these service providers' customer service representatives to serve our users. If any such service provider fails to address customer service requests properly and in a timely manner, our users may be unable to access our content or may attribute any unpleasant experience with their customer service to us. As a result, our reputation, business, financial condition and results of operations could be materially and adversely affected.

**Our business, financial condition, results of operations and cash flows may be materially and adversely affected if we are unable to efficiently manage our inventory and other risks with respect to our physical books business.**

We must anticipate the marketability of our physical books before selling them. Due to the sales model that is generally adopted in the publishing business in China, we face risks associated with having a relatively long selling and collection cycle for our physical books that requires us to make



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significant resource commitments prior to realizing revenues. We deliver the books substantially on consignment basis and only receive payments from the bookstores and wholesalers based on sales orders confirmed by both parties. Therefore, our selling and collection cycle is subject to many risks and delays over which we have little or no control, including users' preferences and the creditworthiness of the bookstores or wholesalers. In addition, under this business model, we also incur increased inventory risks if the bookstores and wholesalers are unable to sell our books in a timely manner or return unsold publications to us. If we are unable to correctly predict demand for our books, we will be responsible for covering the cost of the books that we are unable to sell, and our financial condition, results of operations and cash flows would be adversely affected.

**We rely on the publishing licenses of third-party publishers for our physical books. If such third-party publishers cease to cooperate with us on commercially acceptable terms or at all, or if the PRC regulatory authorities find such cooperation arrangements to be in violation of PRC laws and regulations governing the publishing industry, our physical books business will be materially and adversely affected.**

Under relevant PRC laws and regulations, only entities with a valid publishing license granted by the GAPPRFT are permitted to publish books or other publications in printed form in China. The GAPPRFT ensures compliance with such laws and regulations through granting International Standard Book Numbers, or ISBNs, which are necessary for printing books in China, exclusively to those publishers that own publishing licenses. Such publishers are not allowed to sell or otherwise transfer their ISBNs to any third parties. We have contracted with several qualified state-owned publishers to assist us in this aspect of the publishing process. Under these agreements, the state-owned publishers are responsible for reviewing, editing and applying for the necessary ISBNs for the books or other literary content submitted by us. As advised by our PRC Legal Advisor, our existing cooperation arrangement with state-owned publishers does not violate the mandatory provisions of relevant PRC laws and regulations. If any of such publishers cease to cooperate with us on commercially acceptable terms or at all, and we are not able to find a suitable alternative partner in a timely manner, we may lose significant business and our physical books business will be materially and adversely affected.

Our cooperation arrangements with the state-owned publishers also may be impacted by the internal management and financial condition of such publishers. Due to the uncertainties in the interpretation and enforcement of PRC laws and regulations, we cannot assure you that the PRC regulatory authorities will find such cooperation arrangements to be in compliance with PRC laws and regulations governing the physical book publishing industry. To the extent the PRC regulatory authorities find the cooperation arrangements with the state-owned publishers illegal, we may be required to suspend or cease our current physical books business or may be subject to other penalties such as fines, which could amount to five to ten times the illegal gain. As a result, our revenues, business and results of operations would be materially and adversely affected.

**Failure to protect confidential information of our online users and our network against security breaches, any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies could substantially harm our business, financial condition and results of operations.**

Our platform collects, stores and processes certain personal and other sensitive data from our users. Our security measures may be breached due to employee error, malfeasance, system errors or

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vulnerabilities, or otherwise. Outside parties may also attempt to fraudulently induce employees or users to disclose sensitive information in order to gain access to our data or our users' data. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our platform could cause confidential user information to be stolen and used for unlawful purposes. Security breaches or unauthorized access to confidential information could also expose us to liabilities related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our reputation and brands could be severely damaged and we could incur significant liability, and our business, financial condition and results of operations could be adversely affected.

**Failure to handle the challenges faced by us in relation to the collection, management and analysis of user data may affect our ability to successfully execute our user-centric strategy and may materially and adversely affect our business operations.**

We encourage users to register on our platform by filling out straightforward questionnaires through which we collect users' personal data. However, users may have concerns on the privacy of their personal information and may not be willing to provide real user data or even may not provide any user data to us at all. Concerns about the security of user data could also lead to a decline in general internet usage, which could lead to lower user traffic on our platform and could have an adverse effect on our business, financial condition and results of operations.

In addition, we store and manage our users' personal data on our platform which may potentially make us more vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. We also develop our automated content recommendation algorithms to study the behaviors and profiles of our users and we rely on our analysis of user data to develop tailored content curation and recommendation and to enhance our users' reading experience. However, we cannot assure you that our automated algorithms can remain to be advanced as technology continues to evolve or be capable to accurately analyze of users' preferences and appetites towards literary content, and thus we may not be able to provide tailored content curation and recommendation to meet our users' needs. For user data generated from our self-operated channels on Tencent products, we have access to but not ownership of such data. We cannot assure you that we will be able to continuously collect and retain sufficient user data, or improve our data technologies to satisfy our operating needs. Failure to do so will materially and adversely affect our business and results of operations.

**The proper functioning of our mobile apps and websites is essential to our online literature business and any failure to maintain the satisfactory performance, cyber-security incidents, including data security breaches or viruses, will materially and adversely affect our business, reputation, financial condition and results of operations.**

Our ability to provide users with a high quality online reading experience depends on the continuous and reliable operation of our systems and proper functioning of our mobile apps and

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websites. Failure to do so may significantly impair user experience on our mobile apps and websites and decrease the overall effectiveness of our platform to both writers and readers. Disruptions, failures or unscheduled service interruptions could hurt our reputation and cause our writers and readers to switch to our competitors' platforms. Our systems are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our systems. In addition, we rely on servers, data centers and other network facilities provided by other parties, and the limited availability of service providers with sufficient capacity to house additional network facilities and broadband capacity in China may lead to higher costs or limit our ability to offer certain services or expand our business. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of service providers, our users' experience may be negatively affected, which in turn, may have a material and adverse effect on our reputation. We cannot assure you that we will be successful in minimizing the frequency or duration of service interruptions.

**If we fail to successfully adapt our mobile apps and websites to user requirements or emerging industry standards, our business, prospects and financial results may be materially and adversely affected.**

In recent years, mobile devices, such as mobile phones, tablets, wearable devices and other Internet-enabled mobile devices, are used increasingly in China and in overseas markets and have surpassed personal computers as the primary means to access the Internet in the key Chinese markets in which we operate, and we expect this trend to continue while 4G and more advanced mobile communications technologies are broadly implemented. As we make our services available across a variety of mobile operating systems and devices, we are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our costs and expenses. In order to deliver high quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. For our business to be successful, we will need to design, develop, promote and operate new products that will be compatible and popular with such devices. Despite the agreements or arrangements we have entered into with the mobile devices manufacturers, we may encounter difficulties with the installation of such new products for those mobile devices, and such products may not function smoothly. As new devices are released or updated, we may encounter problems in developing and upgrading our products for use on mobile devices and we may need to devote significant resources to the creation, support and maintenance of such products for mobile devices, and we may not be successful in doing so.

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**Our online literature business depends heavily on the market recognition and reputation of our brands, and any harm to our brands or failure to maintain and enhance our brand recognition may materially and adversely affect our business, financial condition and results of operations.**

We believe that the market recognition and reputation of our brands such as *QQ Reading* and *qidian.com* have significantly contributed to the success of our business. Maintaining and enhancing the recognition and reputation of our brands are critical to our success and ability to compete. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brands and may negatively impact our brands and reputation if not properly managed, such as:

- our ability to maintain a convenient and reliable user experience as user preferences evolve and as we expand into new service categories;
- our ability to increase brand awareness among existing and potential writers and readers through various means of marketing and promotional activities;
- our ability to adopt new technologies or adapt our platform and our systems to user requirements or emerging industry standards; and
- our ability to effectively control the quality of third-party platforms.

If we are unable to maintain our reputation, further enhance our brand recognition and increase positive awareness of our mobile apps and websites, our results of operations may be materially and adversely affected.

**If we lose the services of any of our key executive officers, senior management, or are unable to retain, recruit and hire experienced staff, our ability to effectively manage and execute our operations and meet our strategic objectives could be harmed.**

Our future success depends on the continued service of our key executive officers and other key employees. We benefit from the leadership of a strong management team with proven vision, rich professional work experience, and extensive knowledge of China's online literature market, as well as Internet platform operations. We also rely on a number of key editorial and technology staff for the development and operation of our business. In addition, we will need to continue attracting and retaining skilled and experienced staff for our businesses to maintain our competitiveness.

If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and may incur additional expenses to recruit and train new personnel, our business could be severely disrupted, and our business, financial condition and results of operations could be materially and adversely affected. In addition, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, suppliers and customers. Substantially all of our employees, including each of our executive officers and key employees, have entered into employment agreements with us, which contains customary non-compete provisions. Although non-compete provisions are generally enforceable under PRC laws, PRC legal practice regarding the enforceability of such provisions is not as well-developed as in countries such as the United States. Thus, if we need to enforce our rights

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under the non-compete provisions, we cannot assure you that a PRC court would enforce such provisions. If we lose the services of any of our key executive officers, senior management, or are unable to retain, recruit and hire experienced staff, our ability to effectively manage and execute our operations and meet our strategic objectives could be harmed.

**Our business and growth could suffer if we are unable to hire and retain a sustainable editorial team.**

We rely on our experienced and passionate editorial team, which plays a critical role in cultivating writers, nurturing content creation, channeling and processing user feedback, and curating literary titles to users. As of June 30, 2017, we had approximately 340 professional editors. Since the demand and competition for talent is intense in our industry, particularly for editors, we may need to offer higher compensation and other benefits in order to attract and retain a substantial editorial team in the future, which could increase our compensation expenses. We cannot assure you that we will be able to attract or retain editors sufficient to support our business and our business and growth could suffer if we fail to do so.

**We may face challenges in expanding our international and cross border operations.**

After years of development, Chinese online literature, especially fantasy novels featuring martial arts and magical powers, has gained popularity among foreign readers, who are fascinated by the charm and cultural elements concealed within the unique works. To follow the trend of globalization of Chinese online literature, we plan to continue expanding our operations into global markets. However, we will face risks associated with expanding into markets in which we have limited or no experience and in which our company may be less well-known. We may be unable to attract a sufficient number of users and other participants, fail to anticipate competitive conditions or face difficulties in operating effectively in these new markets. The expansion of our international and cross border business will also expose us to risks inherent in transacting business globally, including:

- inability to provide high-quality translation of Chinese literary works due to language, cultural differences, lack of capable translators and other factors;
- increased costs to protect intellectual property and personal data security;
- increased and conflicting regulatory compliance requirements;
- challenges and increased expenses associated with staffing and managing international and cross border operations and managing an organization spread over various jurisdictions;
- inability to recruit international talent and challenges in replicating or adapting our company policies and procedures to operating environments different than that of China;
- exchange rate fluctuations; and
- political instability and general economic or political conditions in particular countries or regions.

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As we expand further into new regions and markets, these risks could intensify. One or more of these factors could adversely impact our international and cross border operations. Accordingly, any efforts we make to expand our international and cross border operations may not be successful.

**We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all. Furthermore, our future capital needs may require us to sell additional equity or debt securities that may dilute our shareholders or introduce covenants that may restrict our operations or our ability to pay dividends.**

To grow our business and remain competitive, we may require additional capital from time to time for our daily operation. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the online literature industry;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by online literature and other Internet companies in China; and
- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

**Given our market leadership position in the online literature industry, failure to fulfill our social responsibilities may damage our reputation and brand, which could result in material and adverse impact to our financial condition and results of operations.**

With our market leadership position and the associated brand value, the professional editors and strong intellectual property management capabilities, we have attracted a large reader base, as well as a deep and talented pool of writers. Given that we have gained considerable influence in the online literature industry, we and our platform are subject to increased scrutiny from a social responsibility perspective. We have long been endeavoring to promote the healthy development of the online literature industry, and efforts are being made to make our platform exert a positive community influence. If we fail to fulfill our social responsibilities as the market leader in the online literature industry in China, our reputation and brands could be severely damaged and our business, financial condition and results of operations could be adversely affected.

**Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other regulations of the PRC may have an adverse impact on our financial conditions and results of operation.**

According to applicable PRC laws and regulations, employers must open social insurance registration accounts and housing provident fund accounts and pay social insurance premium and

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housing provident funds for employees. During the Track Record Period, some of our subsidiaries or Consolidated Affiliated Entities engaged third-party human resources agencies to pay social insurance premium and housing provident funds for some of their employees. As advised by our PRC Legal Advisor, PRC laws and regulations do not prohibit employers from paying social insurance premium and housing provident funds for employees through an agency. As of the Latest Practicable Date, none of these subsidiaries or Consolidated Affiliated Entities had received any administrative penalty or labor arbitration application from employees for its agency arrangement with third-party human resources agencies. Under the agreements entered into between the third-party human resources agencies and our relevant subsidiaries or Consolidated Affiliated Entities, the third-party human resources agencies have the obligations to pay social insurance premium and housing provident funds for our relevant employees. However, if the human resource agencies fail to pay the social insurance premium or housing fund contributions for and behalf of our employees as required under applicable PRC laws and regulations, we may be subject to penalties imposed by the local social insurance authorities and the local housing provident fund management centers for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer.

According to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014 (the “**Labor Dispatch Provisions**”), the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees and dispatched employees. The Labor Dispatch Provisions further requires any employer who is not in compliance with such requirements to reduce the ratio of dispatched employees to below 10% by March 1, 2016. As of the Latest Practicable Date, we had rectified the non-compliance. However, if we are found not to have rectified such non-compliance within the specified time limit, we may be subject to a fine of RMB 5,000-10,000 per dispatched employee.

### **RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS**

**If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities.**

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in the Internet and other related businesses, such as the provision of Internet information.

We are a company incorporated under the laws of the Cayman Islands, and Shanghai Shengting and Shanghai Yuechao, two of our PRC subsidiaries, are considered foreign-invested enterprises. To comply with PRC laws and regulations, we conduct substantially all of our business in China through our Consolidated Affiliated Entities based on the Contractual Arrangements, which enable us to (i) have the power to direct the activities that most significantly affect the economic performance of the PRC Holdcos; (ii) receive substantially all of the economic benefits from the PRC Holdcos in consideration for the services provided by the WFOEs, respectively; and (iii) have an exclusive option to purchase all or part of the equity interests in the PRC Holdcos when and to the extent permitted



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by PRC law, or request any existing shareholder of the PRC Holdcos to transfer any or part of the equity interest in the PRC Holdcos to another PRC person or entity designated by us at any time at our discretion. Because of these contractual arrangements, we are the primary beneficiary of the PRC Holdcos and hence treat each of the PRC Holdcos as our Consolidated Affiliated Entities, and consolidate their and their respective subsidiaries' results of operations into ours. Our Consolidated Affiliated Entities hold the licences, approvals and key assets that are essential for our business operations.

If the PRC government finds that our contractual arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we, Shanghai Hongwen, Shanghai Yuewen or any of their respective subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM, MIIT, MOC and GAPPRFT, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC subsidiaries and Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC subsidiaries and Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from the initial public offering or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities and their respective subsidiaries; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of any of our Consolidated Affiliated Entities in our consolidated financial statements, if the PRC governmental authorities find our legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in our inability to direct the activities of Shanghai Hongwen or Shanghai Yuewen that most significantly impact their economic performance and/or our failure to receive the economic benefits from Shanghai Hongwen or Shanghai Yuewen, we may not be able to consolidate Shanghai Hongwen or Shanghai Yuewen into our consolidated financial statements in accordance with IFRS.



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**Our contractual arrangements may not be as effective in providing operational control as direct ownership. Our PRC Holdcos or their shareholders may fail to perform their obligations under our contractual arrangements.**

Due to the PRC restrictions or prohibitions on foreign ownership of Internet and other related businesses in China, we operate a portion of our business in China through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on a series of contractual arrangements with our Consolidated Affiliated Entities and their shareholders to control and operate their business. These contractual arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See the section headed “Contractual Arrangements” in this document for more details about these contractual arrangements.

Although we have been advised by our PRC Legal Advisor, that our contractual arrangements with Shanghai Hongwen and Shanghai Yuewen constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these contractual arrangements may not be as effective in providing control over Shanghai Hongwen and Shanghai Yuewen as direct ownership. If our PRC Holdcos or their shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these contractual arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these contractual arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Shanghai Hongwen and Shanghai Yuewen in our consolidated financial statements, our ability to conduct our business may be negatively affected.

**We may lose the ability to use and enjoy assets held by our PRC Holdcos that are material to our business operations if our PRC Holdcos declare bankruptcy or become subject to a dissolution or liquidation proceeding.**

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If Shanghai Hongwen or Shanghai Yuewen undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by Shanghai Hongwen to Shanghai Shengting or by Shanghai Yuewen to Shanghai Yuechao under the applicable service agreement.

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If the shareholders of our PRC Holdcos were to attempt to voluntarily liquidate our Consolidated Affiliated Entities without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request the shareholders of our Consolidated Affiliated Entities to transfer all of their respective equity ownership interests to a PRC entity or individual designated by us in accordance with the option agreement with the shareholders of our Consolidated Affiliated Entities. In addition, under the VIE agreements signed by Shanghai Shengting, Shanghai Hongwen and its shareholders, the shareholders of Shanghai Hongwen do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Shanghai Hongwen without our consent. Similarly, the shareholders of Shanghai Yuewen do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Shanghai Yuewen without our consent. In the event that the shareholders of our PRC Holdcos initiate a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of our PRC Holdcos without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

**The ultimate shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.**

We have designated individuals who are PRC nationals to be the ultimate shareholders of Shanghai Hongwen and Shanghai Yuewen. These individuals may have conflicts of interest with us. Each of Shanghai Hongwen and Shanghai Yuewen is approximately 65.38% owned by Litong, which is beneficially owned by Tencent's employees, and 34.62% owned by Ningbo Meishan Yuebao, which is beneficially owned by certain members of our management team, including Mr. Wu Wenhui, Mr. Shang Xuesong, Mr. Lin Tingfeng, Mr. Hou Qingchen and Mr. Luo Li. Conflicts of interest may arise between the roles of Mr. Wu Wenhui, Mr. Shang Xuesong, Mr. Lin Tingfeng, Mr. Hou Qingchen, and Mr. Luo Li as ultimate shareholders, directors and/or officers of our Company and as ultimate shareholders, directors and/or officers of our PRC Holdcos. We rely on these individuals to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our company. Such duties include the duty to act bona fide in what they consider to be in the best interest of our company as a whole and not to place themselves in a position in which there is a conflict between their duties to our company and their personal interests. On the other hand, PRC laws also provide that a director or a management officer owes a loyalty and fiduciary duty to the company he or she directs or manages. We cannot assure you that when conflicts arise, ultimate shareholders of our PRC Holdcos will act in the best interest of our company or that conflicts will be resolved in our favor. These individuals may breach or cause the PRC Holdcos to breach the existing contractual arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

**If we exercise the option to acquire equity ownership and assets of our PRC Holdcos the ownership or asset transfer may subject us to certain limitations and substantial costs.**

Pursuant to the contractual arrangements, Shanghai Shengting or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Shanghai Hongwen from its

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shareholders at the maximum amount of RMB12.1 million, which is equal to the loan granted by Shanghai Shengting to Shanghai Hongwen. Similarly, Shanghai Yuechao or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Shanghai Yuewen from its shareholders at the maximum amount of RMB10.4 million, which is equal to the loan granted by Shanghai Yuechao to Shanghai Yuewen.

The equity transfer may be subject to the approvals from and filings with the MOFCOM, the MIIT, the SAIC and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. The shareholders of our PRC Holdcos will pay the equity transfer price they receive to Shanghai Shengting and Shanghai Yuechao under the contractual arrangements. The amount to be received by Shanghai Shengting and Shanghai Yuechao may also be subject to enterprise income tax. Such tax amounts could be substantial.

**Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the Draft Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.**

### *Background of the Draft Foreign Investment Law*

The MOFCOM published the Draft Foreign Investment Law in January 2015 for public review and comments aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, *the Sino-foreign Equity Joint Venture Enterprise Law*, *the Sino-foreign Cooperative Joint Venture Enterprise Law* and *the Wholly Foreign-invested Enterprise Law*. The Draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or “FIE”. The Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that the entity is “controlled” by PRC entities and/or citizens. In this connection, “foreign investors” refers to the following subjects making investments within the PRC: (i) natural persons without PRC nationality; (ii) enterprises incorporated under the laws of countries or regions other than PRC; (iii) the governments of countries or regions other than the PRC and the departments or agencies thereunder; and (iv) international organizations. Domestic enterprises under the control of the subjects as mentioned in the preceding sentence are deemed foreign investors. “Control” is broadly defined in the draft law to cover the following categories: (i) holding, directly or indirectly, not less than 50% of shares, equities, share of voting rights or other similar rights of the subject entity; (ii) holding, directly or indirectly, less than 50% of the voting rights of the subject entity but having the power to

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secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders' meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be a FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a Catalog of Special Administrative Measures, which is classified into the Catalog of Prohibitions and the Catalog of Restrictions, to be separately issued by the State Council later. Foreign investors are not allowed to invest in any sector set forth in the Catalog of Prohibitions. However, unless the underlying business of the FIE falls within the Catalog of Restrictions or Catalog of Prohibitions, which calls for market entry clearance by the MOFCOM, prior approval from governmental authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

### *Impact of the Draft Foreign Investment Law on VIE*

The VIE structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. Therefore, for any company with a VIE structure in an industry category that is on the Catalog of Restrictions or Catalog of Prohibitions, the VIE structure may be deemed a domestic investment only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the Catalog of Restrictions or Catalog of Prohibitions without market entry clearance may be considered as illegal.

In addition, the Draft Foreign Investment Law does not indicate what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens. Moreover, it is uncertain whether the online literature industry, in which our Consolidated Affiliated Entities operate, will be subject to the foreign investment restrictions or prohibitions set forth in the "catalog of special administrative measures" to be issued.

### *Potential Consequences for our Group*

Our Company is under the indirect control of Tencent. To the best of our knowledge, Tencent was indirectly held as to approximately 33.17% by Naspers Limited, being the single largest shareholder of Tencent as of the Latest Practicable Date. Naspers Limited is a public company listed on the London Stock Exchange and the Johannesburg Stock Exchange which was, according to the integrated annual report of Naspers Limited for the year ended March 31, 2017, held as to approximately 13.97% by Public Investment Corporation of South Africa as of March 31, 2017. The remaining 86.03% was held by the other shareholders whose information was not available in the integrated annual report. In view of the shareholding structure of Tencent (to the best of our knowledge), we may not be able to fall clearly within the definition of "control" under the Draft Foreign Investment Law in its current form. It is therefore uncertain that we could demonstrate that we are "controlled" by PRC entities and/or citizens if the Draft Foreign Investment Law is enacted in its current form.

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Furthermore, if the enacted version of the Draft Foreign Investment Law and the final “catalog of special administrative measures” mandate further actions, such as the MOFCOM market entry clearance, to be completed by companies with an existing VIE structure like us, we would face uncertainties as to whether such clearance can be timely obtained, or at all.

Our Contractual Arrangements, in the worst case scenario, may be regarded as invalid and illegal. As a result, we will not be able to operate our online literature business through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Consolidated Affiliated Entities, such that the financial results of these entities would no longer be consolidated into our financial results and we will have to derecognize their assets and liabilities according to the relevant accounting standards. In such case, the Stock Exchange may also consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares.

For further details of the Draft Foreign Investment Law and the “catalog of special administrative measures” and its potential impact on us, see the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this document.

**Our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.**

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries and our Consolidated Affiliated Entities do not represent an arms-length price and adjust our Consolidated Affiliated Entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our PRC variable interest entities for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

### RISKS RELATING TO DOING BUSINESS IN THE PRC

**Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.**

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries and

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Consolidated Affiliated Entities are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

**The successful operations of our business and our growth depend upon the Internet infrastructure and telecommunication networks in China.**

Almost all access to the Internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's Internet infrastructure or telecommunications networks provided by telecommunication service providers. Internet traffic in China has experienced significant growth during the past few years. Effective bandwidth and server storage at Internet data centers in large cities such as Beijing are scarce. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our mobile apps and websites. We cannot assure you that the Internet infrastructure and telecommunications networks in China will be able to support the demands associated with the continued growth in Internet usage. If we were unable to increase our online content and service delivering capacity accordingly, we may not be able to continuously grow our Internet traffic and the adoption of our products and services may be hindered, which could adversely impact our business and our share price.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and Internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if Internet access fees or other charges to Internet users increase, users may be discouraged or prevented from accessing the Internet and thus cause the growth of Internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base, which in turn could adversely affect the operation of our business and our growth.



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**PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.**

Substantially all of our operations are located in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, the Chinese economy has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our services and materially and adversely affect our business and results of operations.

**The PRC legal system embodies uncertainties which could limit the legal protections available to us.**

The PRC legal system is based on written statutes and prior court decisions have limited value as precedents. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning the online literature industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating the online literature industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to online reading.

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Moreover, developments in the online literature industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may limit or restrict online reading marketplaces like us, which could materially and adversely affect our business and operations.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

**The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.**

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.**

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a



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resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation, or SAT, issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that China Literature Limited or any of our subsidiaries outside of China is a PRC resident enterprise for PRC enterprise income tax purposes, then China Literature Limited or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

### **Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

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The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

**The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenues in RMB. Under our current corporate structure, our company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings in the

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Foreign Investment Comprehensive Management Information System, or FICMIS, and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in FICMIS. Any medium or long term loan to be provided by us to our Consolidated Affiliated Entities must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net proceeds from this offering, which may adversely affect our business, financial condition and results of operations.

**The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.**

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the SAT, which became effective retroactively as of January 1, 2008, where a non-resident enterprise investor transfers equity interests in a PRC resident enterprise indirectly by way of disposing of equity interests in an overseas holding company, the non-resident enterprise investor, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%. In addition, the PRC resident enterprise may be required to provide necessary assistance to support the enforcement of Circular 698.

On February 3, 2015, the State Administration of Tax issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or

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Public Notice 7. Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises of ours may be subject to filing or tax obligations if our company and other non-resident enterprises of ours are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises of ours are transferees in such transactions, under Circular 698 and Public Notice 7. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Circular 698 and Public Notice 7. As a result, we may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises of ours should not be taxed under these circulars. The PRC tax authorities have the discretion under Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Circular 698 and Public Notice 7, our income tax costs associated with such transactions will be increased, which may have an adverse effect on our financial condition and results of operations. We have made acquisitions in the past and may conduct additional acquisitions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance to them for the investigation of any transactions we were involved in. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

**Failure to obtain any preferential tax treatments or the discontinuation, reduction or delay of any of the preferential tax treatments that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.**

We have been granted certain governmental subsidies and tax preferences. Enterprises that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15% for three

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## RISK FACTORS

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years. Beijing Hongxiu, Wangwen Xinyue and Shanghai Xuanting were certified as “high and new technology enterprises” in 2014, and their certificates have been renewed and will expire on October 21, 2017, July 23, 2018 and November 23, 2019, respectively. We have already submitted an application to renew the certificate of Beijing Hongxiu. Shanghai Yuewen enjoyed enterprise income tax exemption for 2015, and enjoyed or will enjoy a preferential tax rate of 12.5% for each of the years ended December 31, 2016, 2017 and 2018. See the section headed “Financial Information — Description of Major Components of Our Results of Operations — Our Company — Taxation” in this document. Nevertheless, the preferential tax rates enjoyed by certain of our Consolidated Affiliated Entities are non-recurring in nature, and the government agencies may decide to reduce, eliminate or cancel such subsidies and tax preferences at any time. We cannot assure you of the continued availability of the government subsidies and tax preferences currently enjoyed by us. The discontinuation, reduction or delay of these governmental subsidies and preferential tax treatment could adversely affect our financial condition and results of operations.

**We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, was promulgated by the SAFE in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.



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## RISK FACTORS

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We have requested PRC residents holding direct or indirect interest in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. Due to a lack of detailed implementation rules of the registration requirements, some individual Shareholders of our Company who are PRC citizens applied for their remedial registration with the competent local branches of the SAFE. We are committed to complying with and to ensuring that our Shareholders who are subject to the regulations will comply with the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, our individual Shareholders who are PRC citizens have completed their registration under the SAFE Circular 37.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

**Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or SAFE Circular 7, replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution

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## RISK FACTORS

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to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. Also, SAFE Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly-listed special purpose company may register with SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted share options and restricted shares will be subject to these regulations upon the completion of this offering. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

### **Certain judgments obtained against us by our shareholders may not be enforceable.**

We are an exempted company incorporated in the Cayman Islands and substantially all of our assets are located in China and substantially all of our current operations are conducted in China as well. In addition, a majority of our current directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

### **We may be subject to regulatory activity under the PRC Anti-Monopoly Law**

Pursuant to the PRC Anti-Monopoly Law, which was adopted by the SCNPC on August 30, 2007 and became effective on August 1, 2008 (the "AML"), and relevant regulations, we may be deemed to have a dominant market position in the relevant market by the relevant PRC regulatory authorities even though our market share in terms of online reading revenue generated by us in the online literature market was 43.2% in 2016, which was below the 50% threshold for being deemed to possess

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## RISK FACTORS

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a dominant market position under the relevant laws and regulations in the PRC. As advised by our PRC Legal Advisor and pursuant to the AML and relevant regulations, in addition to market share, the PRC regulatory authority will consider other factors, such as the competitive landscape of the relevant market, the financial and technical conditions of the business operator and its capacity to control the sales markets or the raw material procurement market, when evaluating whether a business operator possesses a dominant market position. If we are deemed to have a dominant market position and the relevant PRC regulatory authority establishes that we have abused such dominant market position, the PRC regulatory authority may, at its discretion, confiscate any illegal gains and impose a fine of 1% to 10% of our revenues arising from the preceding financial year, which may have a material adverse effect on our business operations, financial results and profitability.

In addition, pursuant to the AML and the relevant regulations, when a concentration of undertakings occurs and reaches statutory thresholds, the undertakings concerned shall file a prior notification with the MOFCOM. Without the clearance of prior notification from the MOFCOM, no concentration of undertakings shall be implemented and effected. If such prior notification is not obtained, the MOFCOM may order the concentration to cease its operations, dispose of shares or assets, transfer the business of the concentration within a time limit, take any other necessary measures to restore the situation as it was before the concentration, and may impose a fine of up to RMB500,000. Failure to comply with the requirements of the AML and the relevant regulations could make our future acquisitions time consuming, complex and difficult to complete, which may have a material adverse effect on our business operations, financial results and profitability.

### RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for the Shares and the liquidity and market price of our Shares may be volatile.**

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations among our Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

**The trading price of the Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may



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## RISK FACTORS

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affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

**The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and Controlling Shareholders, could adversely affect the market price of our Shares.**

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Controlling Shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods. For further details, see the section headed “Underwriting — Underwriting Arrangements and Expenses” in this document. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

**There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various independent third-party sources, including the industry expert reports, contained in this document.**

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the online literature market. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other

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## RISK FACTORS

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economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

**You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this document, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. The Group's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of the Group are primarily based in China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Group and therefore would not be in the best interests of the Company and the Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) Pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives, as well as their alternate representative, to be the principal communication channel at all times between the Stock Exchange and the Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to promptly deal with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on the Company's behalf with the Stock Exchange. At present, our two authorised representatives are Mr. Liang Xiaodong, the Group's co-chief executive officer, and Ms. Lai Siu Kuen, a senior manager of the Listing Services Department of TMF Hong Kong Limited. Their alternate is currently Mr. Zhao Jincheng, the joint company secretary. See the section headed "Directors and Senior Management" in this document for more information about our authorised representatives.
- (b) We will implement a policy to provide the up-to-date contact details of each Director (such as office phone numbers, mobile phone numbers, fax numbers, and email addresses) to the authorised representatives and to the Stock Exchange. This will ensure that the authorised representatives, their alternate, and the Stock Exchange will have the means to contact any of the Directors promptly as and when required, including when the Directors are travelling.
- (c) All Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required.

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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- (d) We have retained the services of Guotai Junan Capital Limited as compliance advisor (the “**Compliance Advisor**”), in accordance with Rule 3A.19 of the Listing Rules. The Compliance Advisor will serve as an additional channel of communication with the Stock Exchange in addition to the authorized representatives of the Company. The Compliance Advisor will provide us with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Advisor has prompt access to our authorized representatives and Directors. In turn, they will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor’s duties. The Compliance Advisor will also provide advice to us when consulted by us in compliance with Rule 3A.23 of the Listing Rules.
  
- (e) Meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives, the Directors, and/or the Compliance Advisor in accordance with the Listing Rules.

### WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

Pursuant to Rule 3.28 Note 1 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
  
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
  
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Rule 3.28 Note 2 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles they played;
  
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

The Company appointed Mr. Zhao Jincheng (“**Mr. Zhao**”) and Ms. Lai Siu Kuen of TMF Hong Kong Limited (“**Ms. Lai**”) as joint company secretaries of the Company on June 29, 2017. See the section headed “Directors and Senior Management” in this document for further information regarding the qualifications of Mr. Zhao and Ms. Lai.

Ms. Lai is a member of both the Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries, and therefore meets the qualification requirements under Rule 3.28 Note 1 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Accordingly, whilst Mr. Zhao does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, based on the above reasons, we, on behalf of the Company, hereby apply for a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Zhao may be appointed as a joint company secretary of the Company on the basis of the proposed arrangements below.

The waiver was granted for a three-year period on the condition that Ms. Lai, as a joint company secretary of the Company, will work closely with, and provide assistance to, Mr. Zhao in the discharge of his duties as a joint company secretary for an initial period of three years from the date of the Listing. Ms. Lai is a suitably qualified person to render assistance to Mr. Zhao so as to enable him to acquire the “relevant experience” as is required of a company secretary under Rule 3.28 of the Listing Rules. In addition, Mr. Zhao will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the Listing Date. The Company will further ensure that Mr. Zhao has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange.

At the end of the three-year period, the qualifications and experience of Mr. Zhao and the need for on-going assistance from Ms. Lai will be evaluated by the Company. The Company will liaise with the Stock Exchange to enable it to assess whether, having benefited from the assistance of Ms. Lai for the preceding three years, Mr. Zhao has acquired the skills necessary to carry out the duties of a company secretary and the relevant experience (within the meaning of Rule 3.28 Note 2) so that a further partial waiver will not be necessary.

## WAIVERS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with (i) the announcement, circular and independent shareholders’ approval

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## **WAIVERS FROM COMPLIANCE WITH THE LISTING RULES**

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requirements, (ii) the annual cap requirement, and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the section headed “Connected Transactions” in this document.

### **WAIVER IN RESPECT OF THE CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE LISTING RULES**

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-applications in the Hong Kong Public Offering, the Joint Global Coordinators will apply an alternative clawback mechanism following the closing of the application lists. For further information, see the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and clawback” in this document.

### **PERMISSION FOR ALLOCATION OF SHARES TO DIRECTORS AND/OR THEIR CLOSE ASSOCIATES**

The Qualifying Tencent Shareholders who are entitled to participate in the Preferential Offering include certain Directors and/or their close associates. In the absence of a prior written consent from the Stock Exchange, participation by the Directors and/or their close associates who are Qualifying Tencent Shareholders in the Preferential Offering would be prohibited by paragraph 5(2) of Appendix 6 to the Listing Rules which restricts share allocations to directors of the listing applicant or their close associates, whether in their own names or through nominees, unless the conditions set out in Rule 10.03 of the Listing Rules are fulfilled.

Rule 10.03 of the Listing Rules provides that directors of the listing applicant and their close associates may only subscribe for or purchase securities for which listing is sought which are being marketed by or on behalf of a new applicant if (a) no securities are offered to them on a preferential basis and no preferential treatment is given to them in the allocation of securities and (b) the minimum prescribed percentage of the public shareholders required by Rule 8.08(1) of the Listing Rules is achieved. The Reserved Shares offered to the Directors and/or their close associates who are Qualifying Tencent Shareholders are to be offered on a preferential basis pursuant to the Preferential Offering and therefore the condition set out in Rule 10.03(1) of the Listing Rules is not fulfilled. However, the Directors and/or their close associates who are eligible to participate in the Preferential Offering will be participating in their capacity as Qualifying Tencent Shareholders (rather than in their capacity as Directors or the close associates of Directors), on the same terms as all other Qualifying Shareholders, and no preferential treatment will be given to them in the allocation of the Reserved Shares under the Preferential Offering as compared to any other Qualifying Tencent Shareholders.

In view of the above, the Company has sought the Stock Exchange’s consent for, and the Stock Exchange has consented to, the inclusion of the Directors and/or their close associates in the Preferential Offering notwithstanding the requirements under paragraph 5(2) of Appendix 6 to the Listing Rules and the requirements under Rule 10.03 of the Listing Rules, subject to the conditions

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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that (a) no preferential treatment will be given to the Directors and/or their close associates who are Qualifying Tencent Shareholders in the allocation of the Reserved Shares under the Preferential Offering, and (b) the minimum public float requirement under Rule 8.08(1) of the Listing Rules will be complied with.

No waiver application from strict compliance with Rule 10.04 (i.e. restrictions on existing shareholders' purchase and subscription) of the Listing Rules has been made. To the best of our knowledge and information, a close associate of TB Partners is also a shareholder of Tencent. However, TB Partners has confirmed that the close associate shall not participate in the Preferential Offering. Save for the above, the Company is not aware that any of its Shareholders or their close associates are also Tencent Shareholders, and is not aware that any such person will participate in the Preferential Offering. No waiver from strict compliance with Rule 10.04 is therefore required in view of the Preferential Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT**

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

### **GLOBAL OFFERING**

This document is published solely in connection with the Hong Kong Public Offering and the Preferential Offering, which form part of the Global Offering. For applicants under the Hong Kong Public Offering and for the Qualifying Tencent Shareholders under the Preferential Offering, this document and the Application Forms contain the terms and conditions of the Hong Kong Public Offering and the Preferential Offering.

The Hong Kong Offer Shares and the Reserved Shares are offered solely on the basis of the information contained and representations made in this document and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this document and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined among the Joint Global Coordinators, the Selling Shareholders and our Company on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

The Offer Price is expected to be fixed among the Joint Global Coordinators, the Selling Shareholders and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around October 31, 2017 and, in any event, not later than November 7, 2017 unless otherwise determined among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and our Company. If, for whatever reason, the Offer Price is not agreed among the Joint Global Coordinators, the Selling Shareholders and our Company on or before November 7, 2017, the Global Offering will not become unconditional and will lapse immediately.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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See the section headed “Underwriting” in this document for further information about the Underwriters and the underwriting arrangements.

### **PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES AND THE RESERVED SHARES**

The application procedures for the Hong Kong Offer Shares and the Reserved Shares are set forth in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this document and on the relevant Application Forms.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this document.

### **SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES**

Each person acquiring the Offer Shares (including the Reserved Shares) will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this document and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this document and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

#### **British Virgin Islands**

As advised by the legal advisor as to the British Virgin Islands laws, there are no specific laws or regulations in the British Virgin Islands in connection with the offer of the Reserved Shares by the Company to Qualifying Tencent Shareholders incorporated or registered in the British Virgin Islands. Therefore, the Preferential Offering will be extended to Qualifying Tencent Shareholders incorporated

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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or registered in the British Virgin Islands. No Shares may be offered to the public in the British Virgin Islands for purchase or subscription except under circumstances that will result in compliance with the rules concerning offering of such securities in the British Virgin Islands and with the laws of the British Virgin Islands.

### **Macau**

The Company intends to extend the Preferential Offering to Qualifying Tencent Shareholders in Macau. The Preferential Offering does not, and is not intended to, constitute a Macau offer within the meaning of the Macau Financial System Act. This prospectus, the application form and any other related document or material in connection with the Preferential Offering, or invitation for subscription or purchase, have not been, and will not be, registered or subject to any approval in Macau and may not be circulated or distributed, nor may the Reserved Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any persons in Macau other than to Qualifying Tencent Shareholders, for subscription in Hong Kong.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2016, being RMB2.56 billion (equivalent to approximately HK\$3.03 billion), which is over HK\$500 million, and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

Dealings in the Shares on the Stock Exchange are expected to commence on November 8, 2017. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

### **OVER-ALLOTMENT OPTION AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed “Structure of the Global Offering” in this document. Assuming that the Over-allotment Option is exercised in full, the Over-allotment Option Grantors may be required to sell up to an aggregate of 22,705,600 Shares.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advisor for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **SHARE REGISTRAR AND STAMP DUTY**

Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong register will be maintained by the Hong Kong Share Registrar in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. The current and valorem rate of Hong Kong stamp duty of 0.1% on the higher of the consideration for or the market value of the Shares and it is charged to the purchaser on every purchase and to the seller on every sale of the Shares. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. For further details of Hong Kong stamp duty, please seek professional tax advice.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasised that none of us, the Over-allotment Option Grantors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisors or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

### **EXCHANGE RATE CONVERSION**

Solely for convenience purposes, this document includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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the rate of RMB0.8437 to HK\$1.00, the exchange rate prevailing on October 13, 2017 published by the PBOC for foreign exchange transactions, (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.8073 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on October 13, 2017, and (iii) the translation between U.S. dollars and Renminbi were made at the rate of RMB6.5785 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on October 13, 2017.

### **TRANSLATION**

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English document which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### **ROUNDING**

Any discrepancies in any table in this document between total and sum of amounts listed therein are due to rounding.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*For further information on our Directors, see the section headed “Directors and Senior Management” in this document.*

### DIRECTORS

| Name                            | Address   | Nationality         |
|---------------------------------|---|---------------------|
| <b>Executive Directors</b>      |   |                     |
| Mr. Wu Wenhui (吳文輝) .....       | Room 1001, No. 22, Lane 825<br>Chenhui Road<br>Pudong New District<br>Shanghai<br>PRC | Chinese             |
| Mr. Liang Xiaodong (梁曉東) .....  | Room 901, No. 20, Lane 618<br>Qingtong Road<br>Pudong New District<br>Shanghai<br>PRC | Chinese             |
| <b>Non-Executive Directors</b>  |   |                     |
| Mr. James Gordon Mitchell ..... | Flat A1, 29/F<br>Block A, Nicholson Tower<br>8 Wong Nai Chung Gap Road<br>Hong Kong   | British             |
| Ms. Li Ming (李明).....           | No. 12-16 Fengya Court<br>Guangyuan East Road<br>Phoenix City<br>Guangzhou<br>PRC     | Chinese             |
| Mr. Lin Haifeng (林海峰).....      | Flat B, 28/F, Block 2<br>Pacific View<br>38 Tai Tam Road<br>Hong Kong                 | Chinese             |
| Mr. Yang Xiang Dong (楊向東)....   | House N<br>33 Cape Road<br>Chung Hom Kok<br>Hong Kong                                 | Chinese (Hong Kong) |

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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| Name                                       | Address  | Nationality         |
|--|--|---------------------|
| <b>Independent non-executive Directors</b> |  |                     |
| Ms. Yu Chor Woon Carol<br>(余楚媛) .....      | Unit 901, Staircase 1, Block 8<br>Star River Bay Estate 1<br>Middle Xinghe Street<br>Chaoyang District<br>Beijing<br>PRC | Chinese (Hong Kong) |
| Ms. Leung Sau Ting Miranda<br>(梁秀婷) .....  | 41 Newton Road<br>London<br>W2 5JR<br>United Kingdom   | British             |
| Mr. Liu Junmin (劉駿民).....                  | No. 706, Door 3, Building 66<br>Xinancun, Nankai University<br>Nankai District<br>Tianjin<br>PRC                         | Chinese             |

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

Morgan Stanley Asia Limited  
46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

Merrill Lynch Far East Limited  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

#### Joint Global Coordinators

Morgan Stanley Asia Limited  
46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

Merrill Lynch International  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited  
28/F, Chater House  
8 Connaught Road Central, Central  
Hong Kong

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

### **Joint Bookrunners**

Morgan Stanley Asia Limited  
(in relation to the Hong Kong Public Offering only)  
46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

Morgan Stanley & Co. International plc  
(in relation to the International Offering only)  
25 Cabot Square, Canary Wharf  
London E14 4QA  
United Kingdom

Merrill Lynch International  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited  
(in relation to the Hong Kong Public Offering only)  
28/F, Chater House  
8 Connaught Road Central, Central  
Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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J.P. Morgan Securities plc  
(in relation to the International Offering only)  
25 Bank Street, Canary Wharf  
London E14 5JP  
United Kingdom

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

China Securities (International) Corporate Finance  
Company Limited  
18/F, Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

China Renaissance Securities (Hong Kong) Limited  
Unit 8107-08, Level 81, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

China Merchants Securities (HK) Co., Limited  
48/F One Exchange Square, Central  
Hong Kong

CMB International Capital Limited  
45/F, Champion Tower  
3 Garden Road, Central  
Hong Kong

BOCI Asia Limited  
26/F., Bank of China Tower  
1 Garden Road  
Hong Kong

The Hongkong and Shanghai Banking Corporation  
Limited  
1 Queen's Road Central  
Hong Kong

### **Joint Lead Managers**

Morgan Stanley Asia Limited  
(in relation to the Hong Kong Public Offering only)  
46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Morgan Stanley & Co. International plc  
(in relation to the International Offering only)  
25 Cabot Square, Canary Wharf  
London E14 4QA  
United Kingdom

Merrill Lynch Far East Limited  
(in relation to the Hong Kong Public Offering only)  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

Merrill Lynch International  
(in relation to the International Offering only)  
2 King Edward Street  
London EC1A 1HQ  
United Kingdom

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited  
(in relation to the Hong Kong Public Offering only)  
28/F, Chater House  
8 Connaught Road Central, Central  
Hong Kong

J.P. Morgan Securities plc  
(in relation to the International Offering only)  
25 Bank Street, Canary Wharf  
London E14 5JP  
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China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

China Securities (International) Corporate Finance  
Company Limited  
18/F, Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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China Renaissance Securities (Hong Kong) Limited  
Unit 8107-08, Level 81, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

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48/F One Exchange Square, Central  
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3 Garden Road, Central  
Hong Kong

BOCI Asia Limited  
26/F., Bank of China Tower  
1 Garden Road  
Hong Kong

The Hongkong and Shanghai Banking Corporation  
Limited  
1 Queen's Road Central  
Hong Kong

Futu Securities International (Hong Kong) Limited  
11/F, Bangkok Bank Building  
18 Bonham Strand West, Sheung Wan  
Hong Kong

**Auditors and Reporting Accountants**

PricewaterhouseCoopers  
Certified Public Accountants  
22/F, Prince's Building  
Central  
Hong Kong

**Legal Advisors to the Company**

As to Hong Kong and U.S. laws:  
Skadden, Arps, Slate, Meagher & Flom and affiliates  
42/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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As to PRC law:  
Han Kun Law Offices  
Suite 906, Office Tower C1  
Oriental Plaza  
No. 1 East Chang An Avenue  
Beijing

As to Cayman Islands law:  
Maples and Calder (Hong Kong) LLP  
53rd Floor, The Center  
99 Queen's Road Central  
Hong Kong

**Legal Advisor to Tencent**

As to Hong Kong and U.S. laws:  
Davis Polk & Wardwell  
18/F, The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

**Legal Advisors to the Joint Sponsors  
and the Underwriters**

As to Hong Kong and U.S. laws:  
Clifford Chance  
27/F, Jardine House  
One Connaught Place  
Central  
Hong Kong

As to PRC law:  
Grandall Law Firm (Shanghai)  
23-25/F, Garden Square  
968 West Beijing Road  
Shanghai  
China

**Industry Consultant**

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.  
Suite 1014-1018, Tower B  
500 Yunjin Road  
Shanghai, PRC

**Receiving Bank**

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

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## CORPORATE INFORMATION

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|   |  |
|---|--|
| <b>Registered Office</b>                                    | The offices of Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman KY1-1104, Cayman Islands  |
| <b>Head Office and Principal Place Of Business in China</b> | No. 690 Bi Bo Road, Block 6, Pudong XinQu, Shanghai, PRC   |
| <b>Principal Place of Business in Hong Kong</b>             | 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong  |
| <b>Company's Website</b>                                    | <a href="http://www.yuewen.com/">http://www.yuewen.com/</a><br>(The information on the website does not form part of this document)  |
| <b>Joint Company Secretary</b>                              | Zhao Jincheng<br>Room 1302, Flat 13,<br>Alley 1888<br>Langu Road<br>Shanghai<br>PRC<br><br>Lai Siu Kuen (FCIS, FCS)<br>36/F, Tower Two, Times Square<br>1 Matheson Street<br>Causeway Bay<br>Hong Kong         |
| <b>Authorized Representatives</b>                           | Liang Xiaodong<br>Room 901, No. 20, Lane 618<br>Qingtong Road<br>Pudong New District<br>Shanghai<br>PRC<br><br>Lai Siu Kuen<br>36/F, Tower Two, Times Square<br>1 Matheson Street<br>Causeway Bay<br>Hong Kong |
| <b>Audit Committee</b>                                      | Ms. Yu Chor Woon Carol (Chairman)<br>Mr. Yang Xiang Dong<br>Ms. Leung Sau Ting Miranda   |
| <b>Remuneration Committee</b>                               | Ms. Leung Sau Ting Miranda (Chairman)<br>Mr. Wu Wenhui<br>Ms. Yu Chor Woon Carol   |

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## CORPORATE INFORMATION

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|  |  |
|--|--|
| <b>Nomination Committee</b>                          | Mr. James Gordon Mitchell (Chairman)<br>Ms. Yu Chor Woon Carol<br>Mr. Liu Junmin   |
| <b>Strategy and Investment Committee</b>             | Mr. Wu Wenhui (Chairman)<br>Mr. Liang Xiaodong<br>Mr. James Gordon Mitchell<br>Ms. Li Ming<br>Mr. Lin Haifeng  |
| <b>Compliance Advisor</b>                            | Guotai Junan Capital Limited<br>27/F Millennium Plaza<br>181 Queen's Road Central<br>Hong Kong   |
| <b>Hong Kong Share Registrar</b>                     | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor<br>Hopewell Center<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| <b>Principal Share Registrar and Transfer Office</b> | Maples Fund Services (Cayman) Limited<br>PO Box 1093, Boundary Hall,<br>Cricket Square,<br>Grand Cayman, KY1-1102<br>Cayman Islands                  |
| <b>Principal Banker</b>                              | Shanghai Huangpu Sub-branch of<br>Bank of Communications<br>No.99 Huaihai East Road<br>Shanghai<br>PRC   |

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## INDUSTRY OVERVIEW

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*This section contains certain information, statistics and data which are derived from a commissioned report from Frost & Sullivan, an Independent Third Party (the “Frost & Sullivan report”). The information from official government publications, industry sources and the Frost & Sullivan report may not be consistent with information available from other sources within or outside the PRC and Hong Kong. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, neither we nor any other party involved in the Global Offering have independently verified such information, and neither we nor any other party involved in the Global Offering are giving any representation as to the accuracy or completeness of such information. As such, investors are cautioned not to place any undue reliance on the information, including statistics and estimates, set forth in this section or similar information included elsewhere in this document. For a discussion of risks relating to our industries, see the section headed “Risk Factors — Risks Relating to Our Business and Industry” in this document.*

### SOURCES OF THE INDUSTRY INFORMATION

We engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report on, the online literature market in China for use in this document. Founded in 1961, Frost & Sullivan provides industry research and strategic market insights, as well as growth consulting and corporate training. The information from Frost & Sullivan disclosed in the document is extracted from the Frost & Sullivan report, a report commissioned by us for a fee of RMB600K, and is disclosed with the consent of Frost & Sullivan. Frost & Sullivan has conducted detailed primary research, which involved discussions with certain leading industry participants and conducting interviews with relevant parties. Frost & Sullivan has also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Frost & Sullivan also conducted a consumer survey in China in the first quarter of 2017 (the “Survey”) to gather data for the Frost & Sullivan report. For the consumer survey conducted, Frost & Sullivan surveyed a pool of 200,000 online literature users based on the demographics of online literature users (45% female and 55% male), covering 225 major tier one, tier two, tier three, and tier four cities in China. The purpose of this consumer survey is to further study online literature users’ essential characteristics, reading habits and other features.

In compiling and preparing the Frost & Sullivan report, Frost & Sullivan made the following assumptions:

- China’s social, economic and political environment is likely to remain stable in the forecast period;
- related industry key drivers are likely to drive the market in the forecast period; and



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## INDUSTRY OVERVIEW

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- when compiling data for our Company, Frost & Sullivan included *jjwxc.net*, an online literature platform operated by a joint venture in which the Company holds a 50% equity interest, as part of our Company, because as advised by Frost & Sullivan, (i) when compiling information, statistics and data in relation to market participants for the analysis of the relevant industry, it is a customary practice to include the information and data of an entity as part of another company that holds substantial equity interests in such entity, and (ii) if it were not included as part of the Company, it would be entirely excluded as a corporate market participant for the purpose of industry analysis.

Frost & Sullivan's projections are made based on various market determinants and the respective coefficients assigned to a market determinant which indicate their relative importance. The market determinants represent both subjective assumptions and objective factors. Therefore, the projected data may not be consistent with the market data.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan report. Our Directors confirm that after taking reasonable care, there is no material adverse change in the overall market information since the date of the Frost & Sullivan report that would materially qualify, contradict or have an impact on such information.

### ONLINE LITERATURE MARKET IN CHINA

#### Overview and Outlook of China's Literature Market

China's literature market currently comprises three sectors: online literature, e-books, and physical books (of a literary nature). Online literature is defined as literary works originally created for general public interest and distributed over the Internet. E-books refer to digital versions of physical books of a literary nature. The key difference between online literature and e-books is that online literature works are originally created on and initially distributed through online literature platforms, typically in serial manner, while e-books are considered as one of the subsequent carrying forms of licensed literature content and are published only after they are completed. The size of the literature market in China, measured by revenue, grew from RMB29.7 billion in 2013 to RMB40.3 billion in 2016, representing a CAGR of 10.7%, and is expected to further increase to RMB59.1 billion in 2020, representing a CAGR of 10.1% from 2016.

Within China's literature market, online literature has grown the fastest, at a CAGR of 44.9% from 2013 to 2016, and is projected to continue to grow at a CAGR of 30.9% from 2016 to 2020. In 2016, the size of online literature market in China was RMB4.6 billion, representing 11.4% of the total literature market in China, and such percentage is expected to grow to 22.7% in 2020.

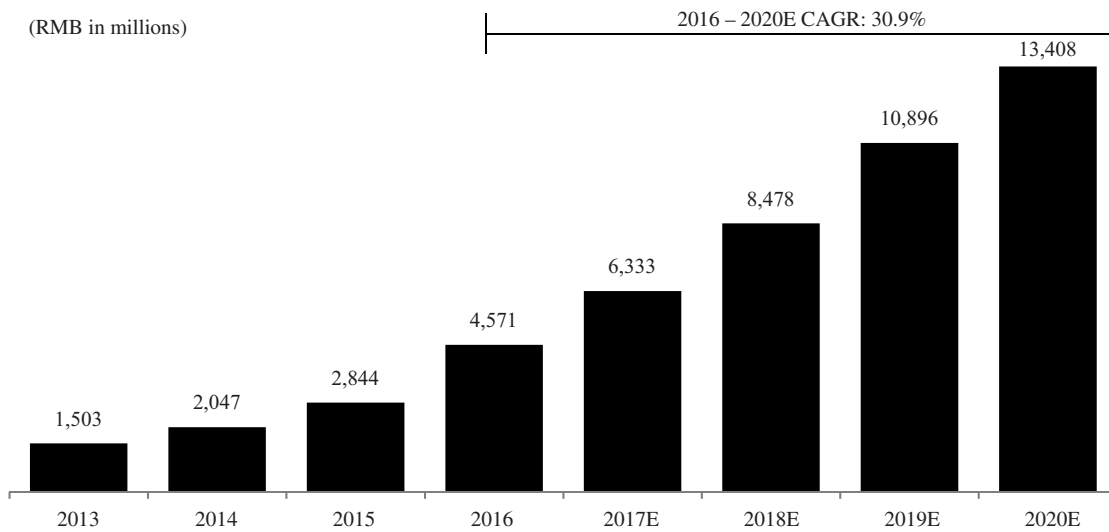
For the online literature market as defined in the Frost & Sullivan report, revenues are "narrowly" defined as primarily generated from online reading activities by readers through purchase of online premium content via three main methods: pay-per-chapter, monthly subscription packages, and other bundled packages. The following chart illustrates the historical and projected online literature market size in China as measured by revenue.

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## INDUSTRY OVERVIEW

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### China's online literature market size (2013-2020E)



Source: Frost & Sullivan report

Note: The size of online literature market is measured by revenue from online paid reading through purchase of online paid premium content by readers.

### Drivers of Online Literature Market Growth in China

Online literature enjoys significant creative freedom and is increasingly preferred by Chinese readers who are looking for depth and diversity in literary content. Unlike traditional literature, which is typically classic or contemporary novels by well-known authors, online literature is more diverse and caters to broad content demands of Chinese readers. Online literature includes genres such as fantasy, *wuxia*, science fiction, mystery, romance and cosmopolitan, as well as a wide spectrum of other refined literary interests.

With the increasing Internet penetration particularly on mobile, which reached 52.9% and 50.3% respectively in 2016, online literary works have become easily accessible to internet users on their PC and mobile devices. In particular, due to the convenience of reading on mobile devices and the engaging nature of literature content, reading through mobile apps has become an increasingly popular way of content consumption among mobile users to take advantage of their fragmented free time. According to the Survey, 25.2% of the survey respondents ranked online literature reading as one of the top activities in terms of daily time spent on mobile devices. The large growing reader base, together with the increasing user engagement level, will continue to boost the growth of online literature market in China.

In addition, the environment for intellectual property protection in China has significantly improved in recent years. The existence of pirated online literature content has led to an estimated loss in revenue of RMB11.4 billion in 2016, which is more than double the size of the online literature market revenue in 2016. With increasing focus on intellectual property protection and effective anti-piracy efforts undertaken by governmental agencies and industry players, China's anti-piracy

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## INDUSTRY OVERVIEW

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environment has been steadily improving. In the meantime, readers' willingness to pay for premium online literature content has increased significantly in recent years. Out of the survey respondents who have read online literary content in the first quarter of 2017, 43.8% indicated that they were willing to pay for copyrighted content online. The paying ratio of online reading (in terms of the number of paying users of online literary content as a percentage of all DAUs on online literature platforms in a period) on PC platform and mobile platform increased from 1.3% and 3.3% in 2013 to 2.0% and 7.0% in 2016, respectively, and is expected to further increase to 4.8% and 14.5% in 2020, respectively.

### Evolution of Online Literature Creation and Style

Online literature in China has evolved over the past two decades through the following stages:

- *Late 1990's to early 2000's (the early era)*. During this period, the prevailing storylines and genres of online literature were limited, and did not deviate significantly from those of traditional publications. Leading online literature platforms during this time were literary websites, including *rongshuxia.com* and *hongxiu.com*. These websites nurtured the pioneering and influential online writers in China, many of whom maintained their bestselling status until this day. However, the writers during this era were predominantly amateurs, creating literary works on a part-time basis, and there was no clear commercialization model for online literature by websites. As Internet access was a rare commodity for average Chinese consumers during this period, most Chinese readers were only able to view the original online literature content created during this period in paperback form.
- *Early 2000's to 2010 (the emergence of paid reading)*. Online literature growth began to accelerate and diverge from traditional publishing in the early 2000's. The most popular genres of online literature during this time were fantasy and romance. A number of online literature platforms publishing original literary works emerged, led by *qidian.com*, *jjwxc.com*, and *hongxiu.com*. These were all acquired by *Cloudary* in 2009. *Qidian.com*, which was launched in 2002, pioneered the paid online reading model, and set the operating norm for online distribution of copyrighted online literary works in China for other players in the market. Compared with the earlier era, online literature writers during this era were increasingly professional and devoting themselves full-time to online literature creation as they started to generate meaningful revenue from their writings.
- *2010 to present (growing shift toward mobile)*. Online literature became increasingly mobile-centric as mobile Internet penetration in China rose. Owing to the convenience of mobile reading and enhanced features of mobile apps including interactive community tools, the mobile era witnessed growing user stickiness and engagement on online literature platforms. Today, online literature in China spans over 200 genres, far surpassing the scope of traditional publications. Further consolidation of the industry through the merger of *Cloudary* and the literature business of Tencent created our Company. The combined company had 48.4% of total users as measured by monthly average mobile DAUs in 2016.

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## INDUSTRY OVERVIEW

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### Online Literary Works in China

Over the past two decades, the library of online literary titles has reached immense scale and continues to grow on a daily basis. As of December 31, 2016, the total number of online literary works reached 11.6 million, and is expected to reach 22.4 million in 2020, growing at a CAGR of 17.8%. In 2016, 1.9 million new online literary titles were created, and the number is expected to increase to 3.2 million in 2020, representing a CAGR of 13.7%.

Online literature spans a wide variety of genres. New and niche literary categories are emerging rapidly to meet the changing demand for content consumption and subsequently serve as high quality original source material for content adaptation partners. As the content library of major online literature platforms surged during the mobile era, it is crucial for online literature apps to develop tailored content curation and recommendation functionalities to help users discover content and recommend the right content to the right readers. Compared with the previous era, leading industry players in the mobile era are increasingly adept at understanding the interests of their readers and effectively tailoring content curation, which entails constant improvement of their content recommendation algorithms and associated data analytic capabilities.

The top five online literature companies in China in 2016, as ranked by total number of available literary works on their platforms were our Company, *Chinese All Digital Publishing Group*, *iReader*, *Baidu Literature*, and *Alibaba Literature*, each with a share of total works (in terms of the number of online literary works available on the respective platforms as a percentage of the total number of literary works in China) of 72.0%, 27.5%, 5.2%, 3.4%, and 1.7%, respectively. Depending on the term of contracts between writers and online literature platforms, writers can publish their works exclusively or non-exclusively through one or more online literature platforms. In the case of non-exclusive distribution, such works published would be double counted when calculating market share of different online literature companies.

### Online Literature Users in China

The number of online literature readers in China totaled 333.2 million as of December 31, 2016, of which 303.8 million read on mobile devices. The total is expected to reach 421.4 million by December 31, 2020, of which 408.8 million will be on mobile. Online literature users comprise those who read on either PC or mobile platforms and those who read on both. Amongst these three groups, the size of mobile-only readers is currently the largest and is also expected to grow the fastest.

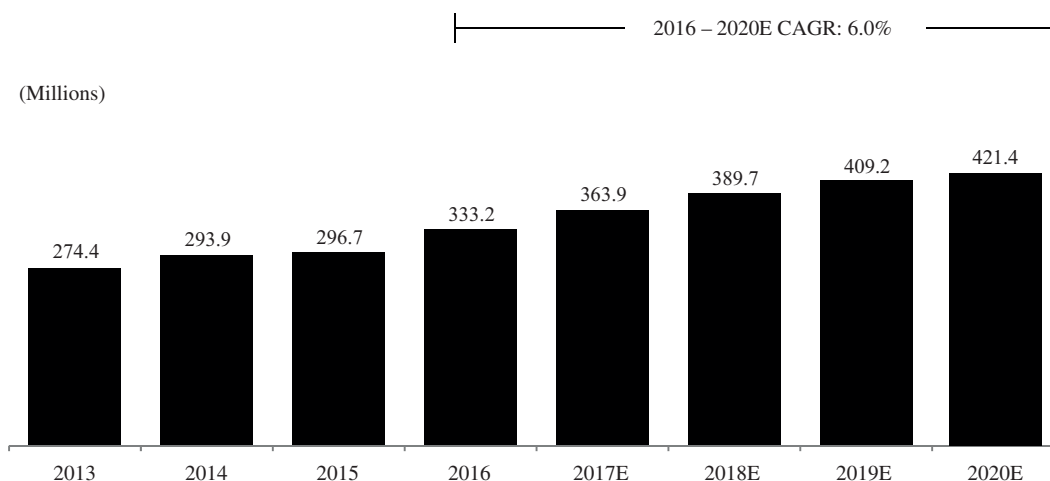
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The following chart illustrates the online literature reader base in China from 2013 to 2016, as well as a forecast from 2017 to 2020.

**Online literature user size (2013-2020E)**



Source: Frost & Sullivan report

Note: The number of online literature users refers to the total number of unique visitors who have paid at least one visit to an online literature platform in China via either PC or mobile devices in the specified year.

Online literature readers in China are active, engaged, and typically younger than the average Internet user. According to the Survey, the majority of China's online literature readers spent over one hour reading online literature per day, and the majority of China's online literature readers accessed online literature content three or more times per week. According to the Survey, 70.7% of China's online literature readers were below the age of 30, 20.7% were between the age of 30 and 39, and 8.6% were of or above the age of 40. Among the online literature readers that participated in the Frost & Sullivan Survey, 10.3% of them have been reading online literature works for less than one year, 22.3% have been reading online literature works for one to three years, while over 60% have been reading online literature works for more than three years.

### Online Literature Writers in China

As of December 31, 2016, there were an estimated 6.0 million writers of original online literature in China. This is expected to reach approximately 8.5 million as of December 31, 2020, representing a CAGR of 9.2%.

The top five online literature companies in China in 2016, as ranked by total number of writers who had published online literary works on the respective platforms as of December 31, 2016, were our Company, *Chinese All Digital Publishing Group*, *iReader*, *Baidu Literature*, and *Alibaba Literature*, each with a share of total writers (in terms of the number of writers on the respective platforms as a percentage of the total number of online literature writers in China) of 88.3%, 41.6%, 33.3%, 8.3%, and 5.0% respectively.

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## INDUSTRY OVERVIEW

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The following are key attractions of online literature to writers in China, as compared with that of physical books.

### *Flexible and Appealing Operating Model*

A majority of online literature writers in China were online literature readers. The barrier to entry for one to become an online literature writer in China is generally lower than that for one to become an offline published writer. Novice writers and other literature enthusiasts can typically create and distribute their original literary works simply by registering with an online literature platform. A key reason for those lower entry barriers is the serial nature of online literary content, which allows writers to distribute content as they write (typically by chapter) and receive real time feedback from readers. Online literature writers are primarily attracted by the significant monetization potential created by the growing online literature scale of readership and content adaptation opportunities, as well as by the flexible serial publishing format.

### *Greater Commercial Potential*

The most successful online literature writers in China can enjoy great recognition and higher income than traditionally-published writers. Of the top ten bestselling writers in China in 2016, six were online literature writers. In 2016, the average income of the top ten online literature writers from online literature was RMB32.3 million, almost twice as much as that of offline publication writers, at RMB17.3 million.

In addition to royalties from paying online readers, popular online literature writers also derive income from a variety of content adaptation opportunities, as well as from marketing campaigns due to their recognition amongst online literature readers. Online literature platforms typically sign contracts with selected writers either by title (作品合約) or by writer (作者合約), which set out the agreed arrangements on revenue sharing and exclusivity of content distribution. Based on the agreed sharing terms in the contracts, revenues generated from online reading, copyright licensing or content adaptation are shared with the writers. The revenue sharing percentage is negotiated on a case-by-case basis, and may vary significantly among different writers.

### **Industry Ranking and Competitive Positioning of Our Company**

Based on the Frost & Sullivan report, the following are key areas of competition amongst China's online literature platforms:

- the scope and quality of online literary library
- the capability to attract, retain and promote a large number of writers;
- the size and stickiness of reader base;
- the expertise of the editorial staff; and
- the user experience on the respective mobile apps or website.

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## INDUSTRY OVERVIEW

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The top five online literature companies in China as measured by average mobile DAUs in 2016 are our Company, *iReader*, *Alibaba Literature*, *Chinese All Digital Publishing Group* and *Baidu Literature*. Mobile DAUs refer to users who read online literary content on mobile platforms in a given day. These five companies had share of total users (in terms of mobile DAUs of the respective companies as a percentage of total mobile DAUs of China's online literature market) of 48.4%, 25.0%, 2.3%, 2.0%, and 0.8%, respectively. From a mobile product perspective, the top five mobile products in China as measured by monthly average DAUs in 2016 are *QQ Reading*, *iReader*, *Qidian Reading*, *Migu Reading* and *Shuqi Literature*, with share of total users (in terms of DAUs of the respective mobile products as a percentage of total mobile DAUs of China's online literature market) of 27.9%, 24.7%, 8.7%, 7.4%, and 4.8%, respectively.

The top five online literature companies in China as measured by average PC DAUs in 2016 are our Company, *Baidu Literature*, *Chinese All Digital Publishing Group*, *Alibaba Literature* and *iReader*. PC DAUs refers to users who read online literary content on PC platforms in a given day. These five companies had share of total users (in terms of total PC DAUs of the respective companies as a percentage of total PC DAUs of China online literature market) of 46.5%, 18.1%, 13.5%, 1.5%, and 1.1%, respectively. From a website product perspective, the top five websites in China as measured by monthly average DAUs in 2016 are *qidian.com*, *jjwxc.net*, *yunqi.qq.com*, *17k.com* and *zongheng.com*, with share of total users (in terms of DAUs of the respective websites as a percentage of total PC DAUs of China online literature market) of 18.3%, 7.9%, 6.5%, 4.5%, and 3.4%, respectively.

The top five mobile online literature products in China as measured by average daily time spent per DAU in the first quarter of 2017 are *QQ Reading*, *Qidian Reading*, *iReader*, *Migu Reading* and *Sogou Reading*. The top five online literature websites in China as measured by average daily time spent per DAU in the first quarter of 2017 are *qidian.com*, *yunqi.qq.com*, *zongheng.com*, *jjwxc.net* and *tadu.com*.

In 2016, the top five online literature companies in terms of online reading revenues generated are: our Company, *iReader*, *ChineseAll*, *Baidu Literature* and *Alibaba Literature*, with a market share (in terms of online reading revenue of each company as a percentage of total online literature market size) of 43.2%, 14.9%, 6.6%, 1.8%, 1.4%, respectively.

The top five private physical book companies in terms of nominal gross billing (as measured by suggested retail prices of the books multiplied by the number of books sold respectively) in 2016 are *CITIC Publishing Group*, *China South Booky Culture Media Co., Ltd.*, *Beijing Motie Book Co., Ltd.*, *Thinkingdom Media Group Ltd.* and *Dolphin Media Co., Ltd.*, with implied market share (in terms of nominal gross billing of the respective book companies as a percentage of total nominal gross billing of China physical book publishing industry) of 2.13%, 1.62%, 1.36%, 1.35%, and 0.87%, respectively. Our affiliated companies, *Tianjin Huawen Tianxia Book* and *Tianjin Zhongzhi Bowen Book*, have implied market share of 0.29% and 0.45%, respectively.

According to the Frost & Sullivan report, our leading position in the relevant markets is mainly attributable to our advantages of having well-established brand value, premium and largely exclusive library content and strong intellectual property management capabilities, as well as our ability to



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## INDUSTRY OVERVIEW

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attract a deep and talented writer pool and a vast and sticky user base. Our mobile products have established our overall leading position in the mobile literature market. However, there is considerable market competition from other mobile literature reading apps and platforms, some of which feature predominantly pirated content.

### MONETIZATION OPPORTUNITIES OF CHINA'S ONLINE LITERATURE CONTENT

#### Key Monetization Drivers of Online Literature Content in China

The mobile era of online literature has witnessed tremendous increase in the monetization formats and commercial potential of online literature content. The following are key monetization drivers of online literature content in China.

- *Rising living and consumption standards result in consumers demanding high quality content.* The cumulative effect of decades of rising disposable income and living standards has caused seismic changes in general consumption patterns in China. Chinese consumers are increasingly focused on the quality of goods they purchase, and are channeling more of their spending power towards high quality content consumption. Based on the Survey, 44.2% of respondents indicated that product quality, rather than star cast, promotion or other factors, is the most important factor when consuming entertainment products. Popular online literary works, endorsed by millions of readers, are becoming the content of choice for entertainment industries. According to the Survey, more than 64.0% of online literature users have played online games adapted from online literary titles, and 50.0% of the respondents indicated that they were willing to pay for online games adapted from online literary titles that they had read.
- *Younger audiences demanding more engaging content formats.* The mainstream consumers of cultural products, including literary content, have gradually shifted to the demographics born in the 1980s and later. Younger Chinese readers have greater demand for engaging content in rich media formats than older readers, and are more receptive to the trendy storylines and diversified genres of online literature, as well as other entertainment products adapted from online literature.
- *Accelerated development of entertainment industries.* China has witnessed a number of entertainment industries experiencing rapid growth in recent years. Markets such as films, TV and web series, online games and animations experienced significant expansion and have significantly stimulated the demand for high quality upstream original content sources, resulting in the increase in the market price of intellectual property. The prevalence of mobile Internet has also generally propelled large Internet platforms to seek additional content offerings in order to capture a greater portion of the fragmented user time of Chinese Internet users. Among the various entertainment industries, the online video portal has become the premier destination for audio-visual entertainment to Chinese consumers. The prevalence of Internet TV as the channel for daily entertainment product

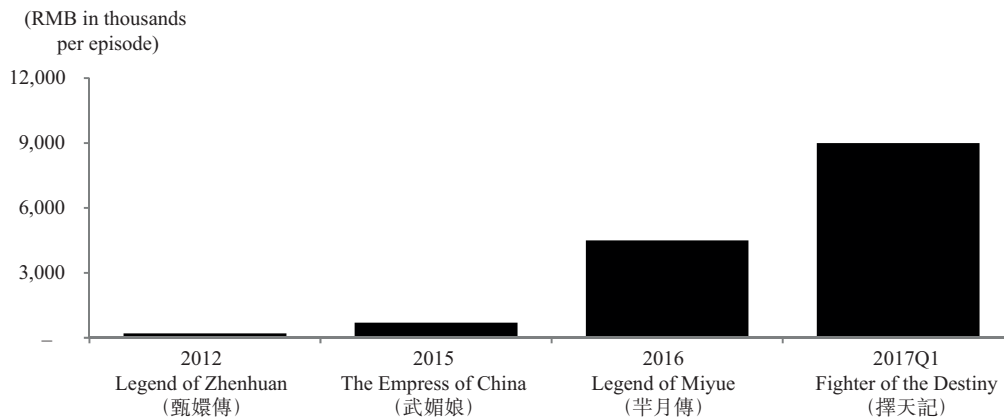
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## INDUSTRY OVERVIEW

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consumption has significantly contributed to the rising monetization potential of online literary titles, which have become the leading source of original materials for TV and web series adaptation in China. The content licensing fee for web broadcasting of adapted TV series has been increasing significantly, as illustrated by the following diagram.

### Licensing fee per episode for web broadcasting of hit adapted TV series (2012-2017Q1)



- *Content adaptation companies, such as film studios, TV and web series production companies, online game production companies and animation production companies, are increasingly reliant on literary works as source materials.* In 2016, in China, 36% of the top 50 domestic films released in terms of box office, 28% of the top 50 domestic TV series aired in terms of viewership, 52% of the top 50 domestic web series aired in terms of viewership, 20% of the top 50 domestic online games published in terms of download volume and 16% of the top 50 domestic animation works released in terms of Internet viewership were adapted from literary works. With the rise of online literature, entertainment media are increasingly turning to original online literature for source materials, primarily due to the existing viewer base and societal influence of such online literary titles prior to adaptation. Furthermore, the serial nature of online literary titles creates a natural affinity for adaptation into engaging and episodic TV and web series or animation products.

### ***Tremendous Room for Improvement in Copyright Licensing and Derivative Entertainment Product Development in China***

Compared with developed countries, such as the U.S., the industry for copyright licensing in China is still at an early stage of development and there is tremendous potential for improvement and growth.

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## INDUSTRY OVERVIEW

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The following table demonstrates the gap between the level of intellectual property market development between the U.S. and China by comparing the film industry and examples of successful adaptations.

| <b>Top 50 Films as Ranked by<br/>Total Box Office in 2016</b>                      |   |   |
|--|---|---|
|  | <b>Produced in the U.S.</b>   | <b>Produced in China</b>                                      |
| Total domestic box office of films adapted from literary/comics works in 2016..... | US\$3.8 billion   | US\$1.1 billion   |
| Percentage of total domestic box office of the top 50 domestic films .....         | 45.6%   | 33.8%   |
| <b>Blockbuster literature / animation copyrights</b>                               |   |   |
|  | <b>Produced in the U.S.</b>   | <b>Produced in China</b>                                      |
| Example.....   | Harry Potter  | Candle in the Tomb<br>(鬼吹燈)                                   |
| Adaptation formats.....  | Offline publishing, films, DVD and cable TV broadcast licensing, online games, theme parks, other derivative products | Offline publishing, TV series, animation, online games, films |
| Aggregate commercial value of adaptations .....                                    | Over US\$7 billion  | Over US\$400 million  |

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*Source: Frost & Sullivan report*

In the U.S., the adaptation rights for various derivative products are more often bundled and sub-licensed to one production conglomerate with significant capital and rich experience to ensure uniformity of style and quality across the various adapted works from the same literary source. In addition, the types of derivative entertainment products are diverse, extending into merchandizing and theme parks.

In China, adaptation rights are typically sub-licensed to a fragmented group of small scale entertainment production companies. The pricing system for intellectual property is relatively under-developed, and the general quality of adapted works is still sub-optimal as compared with the standard in the U.S. Furthermore, the scope of derivative entertainment products is relatively limited in China, including primarily films, TV and web series, online games and animation products. Such

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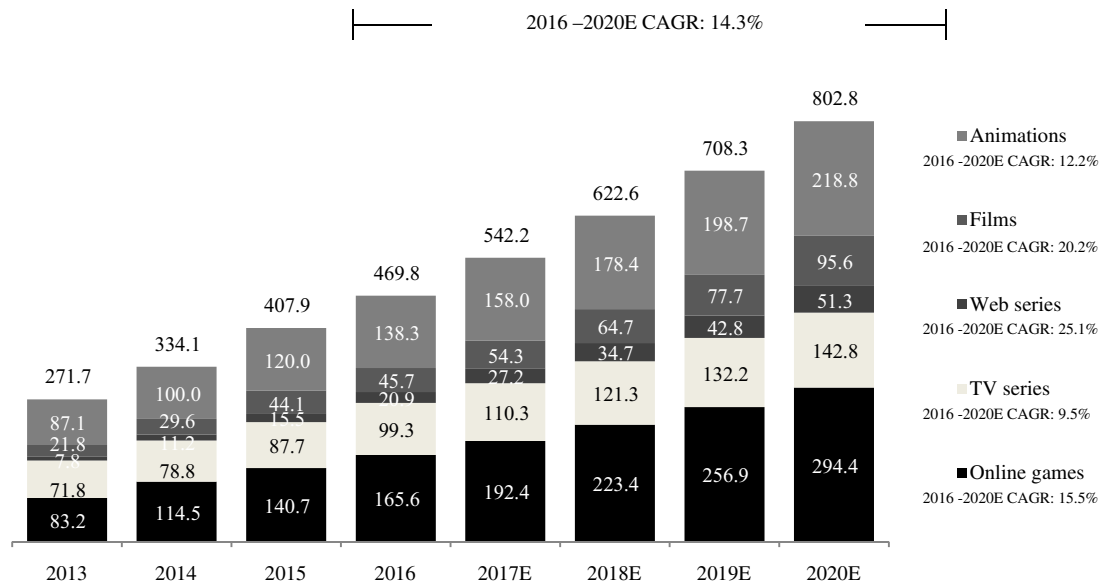
lack of sophistication indicates huge room of improvement and potential growth ahead for the development of the intellectual property industry in China, which could unleash enormous market value for content adaptation.

### Major Online Literature Content Adaptation Channels

With the increasing demand for content consumption from Chinese audiences, China's films, television and web series, online games, animations and other entertainment industries have experienced rapid growth in recent years. The following charts set forth the market size of the various entertainment industries, and corresponding growth rate from 2016 to 2020.

#### Entertainment industry market size (2013-2020E)

(RMB in billions)



Source: Frost & Sullivan report

Notes:

- (1) The animation market size includes the revenues from sales of animation works by producers or publishers of animation works as well as sub-licensing revenue and advertising revenue obtained from animation platforms.
- (2) The film market size includes the box office revenues generated by cinemas across China.
- (3) The web series market size includes the revenues from sales of web series released on PC and mobile platforms, including sub-licensing revenue, advertising revenue and income from paid users.
- (4) The TV series market size includes the revenues from TV series that mainly rely on television platform as the main distribution channel, including sub-licensing revenue and advertising revenue.
- (5) The online game market size includes the revenues from sales of games on PC and mobile devices, and other income including advertising revenue and revenue from in-game value-added service.

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## INDUSTRY OVERVIEW

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When online literary content is adapted into other commercial media products, the content adaptation partners, usually the producers or distributors of the adapted products, will need to obtain the adaptation rights from the intellectual property owners, typically online literature platforms, by paying an upfront licensing fee, or entering into a revenue or profit sharing arrangement, or the combination of the two. In some cases, online literature platforms may also enter into various co-development or co-investment arrangements for greater financial or operational involvement in the adaptation of certain intellectual property, and China Literature Limited has been a pioneer in exploring these new revenue models of intellectual property operations. The terms of revenue or profit sharing are negotiated on a case-by-case basis and are tailored considering the complexity of revenue models, quality and popularity of the underlying literature works, as well as the quality of the final products.

Due to the complex revenue models of content adaptation, varied commercial value of every single online literary work, and different revenue sharing agreements between writers and online literature platforms, it is difficult to derive an explicit market share in terms of revenue of online literature from content adaptation in the PRC entertainment market. However, among the top 50 domestic films, TV series, online games, web series and animations (in terms of box office, ratings, downloads, internet viewership and internet viewership, respectively) in 2016, the percentage adapted from online literary works were 12%, 14%, 8%, 38%, and 10%, respectively.

In recent years, the specific monetization models of original online literary content have increasingly diversified. In addition to fixed licensing fees, copyright-holders of the original online literary content are increasingly sharing in the monetary upside of the derivative entertainment products, such as a portion of box office and distribution revenues. Furthermore, literary content copyright-holders are increasingly forming joint ventures and other co-development partnerships with content adaptation companies in order to gain more operating control during the adaptation process.

### **Our Competitive Positioning with regards to Content Adaptation of Online Literature**

Key competitive factors among copyright-holders include writer pool, size of high quality original online literature reserve, size and stickiness of user base, expertise in systematically identifying and promoting popular literary franchises, and sophisticated understanding of content adaptation operations.

In 2016, our Company was ranked first in terms of share of online literary titles that were adapted into major domestic entertainment products, including:

- top 20 domestic adapted films in terms of box office, with a share of 65%;
- top 20 domestic adapted TV series in terms of ratings, with a share of 75%;
- top 20 domestic adapted web series in terms of viewership, with a share of 70%;
- top 20 domestic adapted online games in terms of cumulative download, with a share of 75%; and
- top 20 domestic adapted animated works in terms of search ranking on *Baidu*, with a share of 80%.

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Based on the Frost & Sullivan report, with our leadership position in China's online literature industry, we are able to engage a large pool of talented writers and secure a deep reservoir of online literary works in the early stage of reader recognition at lower cost levels, while consistently generating high-quality content. Having accumulated extensive experience in intellectual property management, we are well positioned to expand more actively into the wider pan-entertainment market and tap its growth by cooperating with various industry players.

Overall intellectual property management and operation, as well as the pricing mechanism for source literary content licensing, are still in early stage of development in China. Such operation and mechanism lack the comprehensiveness and sophistication found in overseas developed markets, particularly in long term strategic intellectual property development and full-cycle commercial value exploitation. However, the market for intellectual property monetization in China is expected to witness significant growth as industry players accumulate more experience and draw knowledge from their more seasoned overseas counterparts.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OVERVIEW

Tencent started its online reading business in 2004 with the launch of *book.qq.com*. Through a series of internal reorganizations, our Company was incorporated as an exempted company with limited liability in the Cayman Islands on April 22, 2013 as the holding company of our current businesses, which mainly comprise (i) online reading, (ii) intellectual property operations, and (iii) physical book business.

In December 2014, we acquired Cloudary and obtained control of various online literature businesses controlled and operated by Cloudary and its subsidiaries and consolidated affiliated entities, including *qidian.com*, which was launched in 2002 and is widely regarded as a pioneer of the online literature market in China.

Following the completion of the Spin-off, our business will be separate and independent from the businesses of the Retained Tencent Group.

### KEY MILESTONES

The following is a summary of our key business development milestones:

| Year       | Event   |
|------------|---|
| 2002 ..... | <i>Qidian.com</i> , a pioneer of the online literature market, was established  |
| 2004 ..... | <i>Book.qq.com</i> , the predecessor of <i>QQ Reading</i> , was launched  |
| 2009 ..... | <i>Qidian.com</i> was acquired by Cloudary  |
| 2013 ..... | Our Company was incorporated as an exempted company with limited liability in the Cayman Islands  |
| 2014 ..... | We acquired Cloudary and the underlying businesses  |
| 2015 ..... | We unveiled our “Nationwide Reading Strategy” (全民閱讀戰略) and launched the latest generation of the <i>QQ Reading</i> product with a new suite of content and functionalities  |
| 2016 ..... | We jointly launched the <i>China Original Literature Billboard</i> with <i>Forbes Magazine</i> , which has become a reputable ranking for online literature titles, writers and adapted entertainment products in China |



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities and date of establishment and commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are shown below:

| Name of company               | Principal business activities  | Date of establishment and commencement of business |
|-------------------------------|--|--|
| Shanghai Yuewen .....         | Internet publication   | April 2, 2014                                      |
| Shanghai Hongwen.....         | Internet publication   | October 22, 2008                                   |
| Shanghai Xuanting .....       | Internet publication, Internet cultural business and online games business | August 26, 2004                                    |
| Beijing Hongxiu .....         | Internet publication   | March 20, 2006                                     |
| Xiaoxiang College .....       | Internet publication   | June 8, 2010                                       |
| Tianjin Zhongzhi Bowen Book.  | Physical book business   | March 1, 2010                                      |
| Tianjin Huawen Tianxia Book.. | Physical book business   | June 23, 2009                                      |

### MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on April 22, 2013 with an authorized share capital of US\$5,500 divided into 55,000,000 shares with a par value of US\$0.0001 each.

See the paragraph headed “— Pre-IPO Investments” in this section for subsequent shareholding changes in connection with completion of the relevant pre-IPO investments.

### SPIN-OFF

Having considered, among other things, that our online literature business has grown to a sufficient size that warrants a separate listing on the Stock Exchange, Tencent submitted a spin-off proposal to the Stock Exchange pursuant to Practice Notice 15 of the Listing Rules. The Stock Exchange has confirmed that Tencent may proceed with the Spin-off as proposed. Our Company will comply with the requirements under Practice Note 15 and the applicable requirements of the Listing Rules regarding the Spin-off.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Tencent considers that the Spin-off is in the interests of the Tencent Group and the Tencent Shareholders taken as a whole for the following reasons:

1. the Spin-off substantively separates the online literature business from the other businesses of Tencent, thereby enabling investors and financiers to appraise the strategies, risks and returns of the respective businesses of the Retained Tencent Group and our Group separately and to make their investment decisions accordingly;
2. the Spin-off will enhance our Group's profile amongst our readers, writers and other business partners (including content adaptation partners) and enhance our ability to recruit talents;
3. the Spin-off could better reflect the value of our Group on our own merits and increase our operational and financial transparency through which investors would be able to appraise and assess performance and potential of our Group separately and distinctly from those of the Retained Tencent Group;
4. as a separate listed entity, our Company will have our own separate management structure focusing on the online literature business while the management of Tencent will be able to focus on the businesses of the Retained Tencent Group;
5. the Spin-off will provide a separate fund raising platform for our Company thereby enabling us to raise the capital required to finance future expansion without reliance on Tencent; and
6. as our Company is expected to remain as a subsidiary of Tencent upon completion of the Spin-off, Tencent will continue to benefit from any potential upside in the online literature business through consolidation of our Group's accounts and receipt of dividend distributions of our Company.

In accordance with the requirements of Practice Note 15 of the Listing Rules, Tencent will give due regard to the interests of the Tencent Shareholders by providing Qualifying Tencent Shareholders with an assured entitlement to the Shares by way of the Preferential Offering. Details of the Preferential Offering are described in the section headed "Structure of the Global Offering — The Preferential Offering" in this document.

### ACQUISITION OF CLOUDARY

In November 2014, Luxun, Laoshe, TB Partners and Qinghai Lake acquired rights to the shareholdings in Cloudary. On November 6, 2014, our Company entered into certain agreements with Luxun, Laoshe, TB Partners and Qinghai Lake, pursuant to which our Company obtained call options in respect of shares in Cloudary. Our Company exercised the call options on December 25, 2014 and acquired the entire share capital of Cloudary on December 26, 2014. The consideration of such acquisition amounted to approximately US\$729.58 million, and was funded by way of issue of 286,131,738 ordinary shares and 5,701,541 ordinary shares to Laoshe, Luxun, Qinghai Lake and TB

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Partners on November 6, 2014 and December 26, 2014, respectively. The consideration was determined based on arms' length negotiation among the parties and the value of the Cloudary's underlying businesses and was fully settled on December 26, 2014. This acquisition was undertaken so as to further expand our online reading businesses.

The Directors confirm that the acquisition of Cloudary has been properly and legally completed.

Cloudary filed applications for the initial public offering and listing of its shares on the New York Stock Exchange ("NYSE") in May 2011 and in February 2012, respectively. Due to market conditions, Cloudary withdrew its listing application from NYSE in July 2013.

### CORPORATE REORGANIZATION

In preparation for the Global Offering and in order to streamline our corporate structure, we underwent the following reorganization (the "Reorganization"):

#### 1. Reorganization within our Consolidated Affiliated Entities

On April 25, 2017, Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松), Mr. Lin Tingfeng (林庭鋒), Mr. Hou Qingchen (侯慶辰) and Mr. Luo Li (羅立) established Ningbo Meishan Yuebao, holding 83.88%, 5.37%, 5.37%, 2.69% and 2.69% of equity interests in Ningbo Meishan Yuebao, respectively.

On April 26, 2017, Ms. Huang Qihua (黃秋華) and Ms. Li Huimin (李慧敏) entered into an equity transfer agreement with Litong, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which each of Ms. Huang Qihua and Ms. Li Huimin agreed to: (i) transfer a 32.69% equity interest in Shanghai Hongwen to Litong for a consideration of approximately RMB3.97 million; and (ii) transfer a 17.31% equity interest in Shanghai Hongwen to Ningbo Meishan Yuebao for a consideration of approximately RMB2.10 million. The equity interest transfers were completed on May 8, 2017.

On April 26, 2017, Mr. Pan Chunyu (潘春雨) entered into an equity transfer agreement with Litong, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Mr. Pan Chunyu agreed to: (i) transfer a 10.38% equity interest in Shanghai Yuewen to Litong for a consideration of approximately RMB1.13 million; and (ii) transfer a 34.62% equity interest in Shanghai Yuewen to Ningbo Meishan Yuebao for a consideration of approximately RMB3.78 million. The equity interest transfers were completed on May 8, 2017.

On May 8, 2017, Mr. Luo Li (羅立) entered into an equity transfer agreement with Shanghai Yuewen, pursuant to which Mr. Luo Li agreed to transfer the entire equity interest in Shanghai Qiwen to Shanghai Yuewen for a consideration of approximately RMB10.2 million. The equity interest transfer was completed on May 19, 2017.

Our PRC Legal Advisor has further confirmed that all relevant approvals in relation to the equity transfers as described above have been obtained and the procedures involved have been carried out in accordance with the PRC laws and regulations. Our PRC Legal Advisor has further confirmed that the equity transfers as described above have been properly and legally completed.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### 2. Entry into Contractual Arrangements to replace the pre-existing contractual arrangements

On June 26, 2017 and June 27, 2017, the Contractual Arrangements were entered into to replace the pre-existing contractual arrangements in place before the reorganization. See the section headed “Contractual Arrangements” in this document for further details of the Contractual Arrangements.

### PRE-IPO INVESTMENTS

#### 1. Overview

Our Company underwent the following rounds of Pre-IPO Investments:

- (a) Round 1. On November 26, 2013, (i) THL A13, the then sole shareholder of our Company, agreed to subscribe for a total of 43,000,000 Series A-1-1 Preference Shares for a cash consideration of US\$4.83 million; and (ii) Tencent Growthfund agreed to subscribe for a total of 12,000,000 Series A-1-2 Preference Shares (which were subsequently converted into ordinary shares on November 6, 2014) for a cash consideration of US\$1.60 million. The consideration was determined based on the initial capital need of our Company having considered the status of our business at that time and the relatively early stage of development of our Company. The allotment of Series A-1-1 Preference Shares and Series A-1-2 Preference Shares was completed on November 26, 2013.
- (b) Round 2. On September 11, 2014, our Company entered into a subscription agreement (subsequently amended by an amendment agreement dated November 6, 2014) with, among others, THL A13, TB Management II Ltd. (subsequently assigned to Deal Plus pursuant to an amendment agreement dated November 6, 2014) and the Managing Shareholders (together the “**Round 2 Investors**”), pursuant to which the Round 2 Investors agreed to subscribe for a total of 319,999,999 ordinary shares for an aggregate consideration with a value of approximately US\$64.74 million. The consideration comprises cash and other contributions made by the Round 2 Investors and was determined based on arms’ length negotiations between the Round 2 Investors having considered the status of our business at that time and the relatively early stage of development of our Company. The allotment of the ordinary shares was completed on November 6, 2014.
- (c) Round 3. On November 6, 2014, our Company entered into a share subscription agreement with, among others, Luxun, Laoshe and TB Partners (together the “**Round 3 Investors**”) pursuant to which the Round 3 Investors agreed to subscribe for a total of 123,320,817 ordinary shares for a total consideration of approximately US\$308.3 million. On the same date, upon application by Qinghai Lake, our Company issued and allotted 162,810,921 ordinary shares for a total consideration of approximately US\$407.0 million. The allotment of the ordinary shares was completed on November 6, 2014. The consideration formed the consideration of acquisition of Cloudary and was determined based on arm’s length negotiations between the parties and the value of Cloudary’s underlying businesses. For further details, see the paragraph headed “Acquisition of Cloudary” above.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (d) Round 4. On December 19, 2014, Laoshe, Luxun, Qinghai Lake and TB Partners (together the “**Round 4 Investors**”) agreed to subscribe for a total of 5,701,541 ordinary shares for a total consideration of US\$14.3 million. The consideration comprises and was determined based on the cash contributed by and the historical costs incurred by the Round 4 Investors in connection with the acquisition of Cloudary. The allotment of the ordinary shares was completed on December 23, 2014.
  
- (e) Round 5. On February 5, 2016, our Company, entered into a share subscription agreement with Qinghai Lake and TB Partners (together the “**Round 5 Investors**”), pursuant to which the Round 5 Investors agreed to subscribe for a total of 33,010,341 ordinary shares for a total consideration of US\$100,000,000 in cash. The allotment of the ordinary shares was completed on February 16, 2016. The consideration was determined based on arm’s length negotiations between our Company and the Round 5 Investors after taking into consideration the timing of the investments and the status of our business and operating entities at that point of time.
  
- (f) Round 6. On January 16, 2017, our Company entered into a share subscription agreement with TB Partners, Qinghai Lake and Luxun (together the “**Round 6 Investors**”), pursuant to which the Round 6 Investors agreed to subscribe for a total of 30,201,818 ordinary shares for a total consideration of US\$100,000,000 in cash. The allotment of the ordinary shares was completed on January 16, 2017. The consideration was determined based on arm’s length negotiations between our Company and the Pre-IPO Investors after taking into consideration the timing of the investments and the status of our business and operating entities at that point of time.

On November 6, 2014, the Series A-1-1 Preferred Shares and Series A-1-2 Preferred Shares were converted into ordinary shares on a 1:1 basis.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below is a summary of the shareholding structure of our Company as at the date of this document and immediately prior to the completion of the Global Offering:

| Shareholders   | Shares             | Shareholding in our Company as at the date of this document and immediately prior to the completion of the Global Offering |
|--|--------------------|--|
| THL A13 .....  | 246,600,000        | 32.01%   |
| Tencent Growthfund.....                              | 8,400,000          | 1.09%  |
| Grand Profits Worldwide Limited <sup>(1)</sup> ..... | 27,100,626         | 3.52%  |
| Rise Dragon Investment Limited <sup>(2)</sup> .....  | 13,550,313         | 1.76%  |
| Grand Profits Asia Limited <sup>(3)</sup> .....      | 13,550,313         | 1.76%  |
| Jun Chang Limited <sup>(4)</sup> .....               | 6,775,156          | 0.88%  |
| Billion Excel Limited <sup>(5)</sup> .....           | 6,775,156          | 0.88%  |
| Deal Plus.....                                       | 45,000,000         | 5.84%  |
| Qinghai Lake.....                                    | 222,305,634        | 28.85%   |
| TB Partners.....                                     | 45,882,331         | 5.96%  |
| Luxun.....   | 49,713,624         | 6.45%  |
| Laoshe.....  | 44,392,285         | 5.76%  |
| Peak Income <sup>(6)</sup> .....                     | 36,409,091         | 4.73%  |
| Link Apex <sup>(6)</sup> .....                       | 4,000,000          | 0.52%  |
| <b>TOTAL</b> .....                                   | <u>770,454,529</u> | <u>100.00%</u>   |

*Notes:*

- (1) Grand Profits Worldwide Limited is wholly-owned by Mr. Wu Wenhui (吳文輝).
- (2) Rise Dragon Investment Limited is wholly-owned by Mr. Shang Xuesong (商學松), who is a member of our senior management.
- (3) Grand Profits Asia Limited is wholly-owned by Mr. Lin Tingfeng (林庭鋒), who is a member of our senior management.
- (4) Jun Chang Limited is wholly-owned by Mr. Hou Qingchen (侯慶辰), who is our employee.
- (5) Billion Excel Limited is wholly-owned by Mr. Luo Li (羅立), who is our employee.
- (6) Link Apex and Peak Income are entities holding the Shares issued pursuant to the RSU Plan on trust for and on behalf of the grantees or the Company (as the case may be). See the section headed “Statutory and General Information — D. RSU Plan” in Appendix IV to this document.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### 2. Principal terms of the Pre-IPO Investments

The below table summarizes the principal terms of the Pre-IPO Investments:

|  | Round 1   | Round 2                   | Round 3          | Round 4                 | Round 5           | Round 6          |
|--|---|---------------------------|------------------|-------------------------|-------------------|------------------|
| Cost per share paid by the investors..                               | US\$0.1123 (per Series A-1-1 Preference Share)  | US\$0.2023 <sup>(2)</sup> | US\$2.50         | US\$2.50 <sup>(3)</sup> | US\$3.0294        | US\$3.3111       |
|  | US\$0.1333 (per Series A-1-2 Preference Share)  |                           |                  |                         |                   |                  |
| Date on which investment was fully settled .....                     | November 26, 2013   | November 6, 2014          | November 6, 2014 | December 23, 2014       | February 16, 2016 | January 16, 2017 |
| Discount to the Offer Price <sup>(1)</sup> .....                     | 98.3% (per Series A-1-1 Preference Share)   | 96.9%                     | 62.1%            | 62.1%                   | 54.1%             | 49.8%            |
|  | 98.0% (per Series A-1-2 Preference Share)   |                           |                  |                         |                   |                  |
| Use of Proceeds Investments .....                                    | The proceeds served as the general working capital of our Group and were utilized for the development and operation of the businesses of our Group.   |                           |                  |                         |                   |                  |
| Lock-up.....   | The Shares held by the Managing Shareholders are subject to a lock-up period of 6 months after an initial public offering and shall not be transferred without the prior written consent of THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus and TB Partners.  |                           |                  |                         |                   |                  |
| Strategic benefits of the Pre-IPO Investors brought to our Company.. | At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the Pre-IPO Investors' commitment to our Company as their investment demonstrates their confidence in the operations of our Group and serves as an endorsement of our Company's performance, strength and prospects. |                           |                  |                         |                   |                  |

*Notes:*

- (1) Assuming the Offer Price is fixed at HK\$51.50, being the mid-point of the indicative Offer Price range.
- (2) The cost paid by the Round 2 Investors represents the cash paid by and other contributions made by the Round 2 Investors.
- (3) The cost paid by Round 4 Investors comprises the cash paid by and the historical costs relating to the acquisition of Cloudary and its subsidiaries incurred by the Round 4 Investors.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Besides the above, our Company and Goldman Sachs Investments Holdings (Asia) Limited entered into a bond exchange agreement on April 30, 2015, pursuant to which our Company issued certain unsecured convertible bonds in the aggregate principal amount of US\$74,984,462. On June 6, 2016, these convertible bonds were redeemed in full for the same principal amount and the related special rights were terminated.

### 3. Rights of the Pre-IPO Investors

In addition to the terms described above, the Pre-IPO Shareholders' Agreement was entered into among our Company, THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus, TB Partners and members of key management relating to, inter alia, the operation and management of our Company. Pursuant to the Pre-IPO Shareholders' Agreement, the Pre-IPO Investors were granted certain special rights in relation to our Company. The Pre-IPO Shareholders' Agreement and such special rights are expected to terminate prior to the Listing in accordance with the terms of the Pre-IPO Shareholders' Agreement.

### 4. Public Float

THL A13, Qinghai Lake and Tencent Growthfund are wholly-owned subsidiaries of Tencent and are therefore controlled by Tencent. THL A13, Qinghai Lake and Tencent Growthfund collectively hold 52.66% of the issued share capital of our Company immediately upon completion of the Global Offering. As such, Tencent, THL A13, Qinghai Lake and Tencent Growthfund will be a group of controlling shareholders of our Company upon the Listing. Accordingly, the Shares held by THL A13, Qinghai Lake and Tencent Growthfund will not be considered as part of the public float.

Deal Plus is owned by THL A13 as to 48.9% and is therefore considered a core connected person of our Company under the Listing Rules. Accordingly, the Shares held by Deal Plus will not be considered as part of the public float.

Grand Profits Worldwide Limited is wholly-owned by Mr. Wu Wenhui who is a Director. Accordingly, the Shares held by Grand Profits Worldwide Limited will not be considered as part of the public float.

Rise Dragon Investment Limited is wholly-owned by Mr. Shang Xuesong, who is a director of certain subsidiaries of our Company. Accordingly, Rise Dragon Investment Limited will not be considered as part of the public float.

Grand Profits Asia Limited is wholly-owned by Mr. Lin Tingfeng, who is the chief executive of a subsidiary of our Company. Accordingly, the Shares held by Grand Profits Asia Limited will not be considered as part of the public float.

Billion Excel Limited is wholly-owned by Mr. Luo Li, who is a director of certain subsidiaries of our Company. Accordingly, the Shares held by Billion Excel Limited will not be considered as part of the public float.

The Shares held by the other Pre-IPO Investors will be counted towards the public float.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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We consider that the Shares held by TB Partners should be counted towards the public float for the following reasons with reference to Rule 8.24 of the Listing Rules:

- TB Partners is not a core connected person: TB Partners is not a core connected person of our Company as (i) TB Partners is managed by Trustbridge and its affiliates (which is independent to Tencent); and (ii) Tencent's wholly-owned subsidiary is only a limited partner in TB Partners and does not exercise or control the exercise of 30% or more of the voting power of TB Partners and therefore TB Partners is not a close associate of Tencent;
- the Shares held by TB Partners were not financed by a core connected person: By virtue of Tencent being a Controlling Shareholder, Tencent is regarded as a core connected person of our Company. Despite the fact that Tencent's wholly-owned subsidiary is a limited partner of TB Partners and contributed capital to TB Partners, the Shares held by TB Partners should not be regarded as having been financed by Tencent or its subsidiary for the purposes of Rule 8.24(1) of the Listing Rules, given that (i) TB Partners was not established solely to invest in the Shares and it also invests in other portfolio companies; and (ii) Tencent's wholly owned subsidiary, as a limited partner, does not have any influence in the investment decision-making process of TB Partners; and
- TB Partners is not accustomed to take instructions from a core connected person: Tencent's wholly-owned subsidiary is only one of the limited partners in TB Partners and is a passive investor. As explained above, TB Partners is managed by Trustbridge and its affiliates and has a diversified portfolio of investment, and it is therefore not accustomed to take any instructions from Tencent's subsidiary as a limited partner in relation to the acquisition, disposal, voting or other disposition of its shareholding in our Company.

### 5. Information on the Pre-IPO Investors

THL A13 and Qinghai Lake are limited liability companies incorporated under the laws of the British Virgin Islands as investment vehicles and wholly-owned subsidiaries of Tencent. Tencent Growthfund is a limited liability company incorporated under the laws of the Cayman Islands as an investment vehicle and a wholly-owned subsidiary of Tencent. Tencent is a leading provider of Internet value added services in China, including media, entertainment, payment systems, value-added services and online advertising services, and its shares have been listed on the Main Board of the Stock Exchange since 2004 with stock code 700.

Luxun and Laoshe are limited liability companies incorporated under the laws of the Cayman Islands and are wholly-owned by investment funds managed and advised by The Carlyle Group. The Carlyle Group is a global alternative asset manager with US\$170 billion of assets under management across 299 investment vehicles as of June 30, 2017. The Carlyle Group invests across four segments — Corporate Private Equity, Real Assets, Global Market Strategies and Investment Solutions — in Africa, Asia, Australia, Europe, the Middle East, North America and South America, and has expertise in various industries, including: aerospace, defense and government services, consumer and retail, energy, financial services, healthcare, industrial, real estate, technology and business services, telecommunications and media and transportation. The Carlyle Group employs more than 1,550 people in 31 offices across six continents.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Deal Plus is a limited liability company incorporated under the laws of the British Virgin Islands as an investment vehicle and is owned as to 48.9% by THL A13, 36.1% by TB Partners and 15% by an Independent Third Party.

TB Partners is a U.S.-dollar denominated Cayman Islands limited partnership fund managed by Trustbridge Partners and its affiliates. A wholly-owned subsidiary of Tencent is one of the limited partners of TB Partners. Trustbridge Partners is a leading growth equity investor with offices in Shanghai, Hong Kong and Boston, focusing on high-quality growth opportunities in China, such as TMT, consumer and healthcare sectors.

Grand Profits Worldwide Limited is wholly-owned by Mr. Wu Wenhui.

Rise Dragon Investment Limited is wholly-owned by Mr. Shang Xuesong, who is a member of our senior management.

Grand Profits Asia Limited is wholly-owned by Mr. Lin Tingfeng, who is a member of our senior management.

Jun Chang Limited is wholly-owned by Mr. Hou Qingchen, who is our employee.

Billion Excel Limited is wholly-owned by Mr. Luo Li, who is our employee.

### 6. Compliance with Interim Guidance

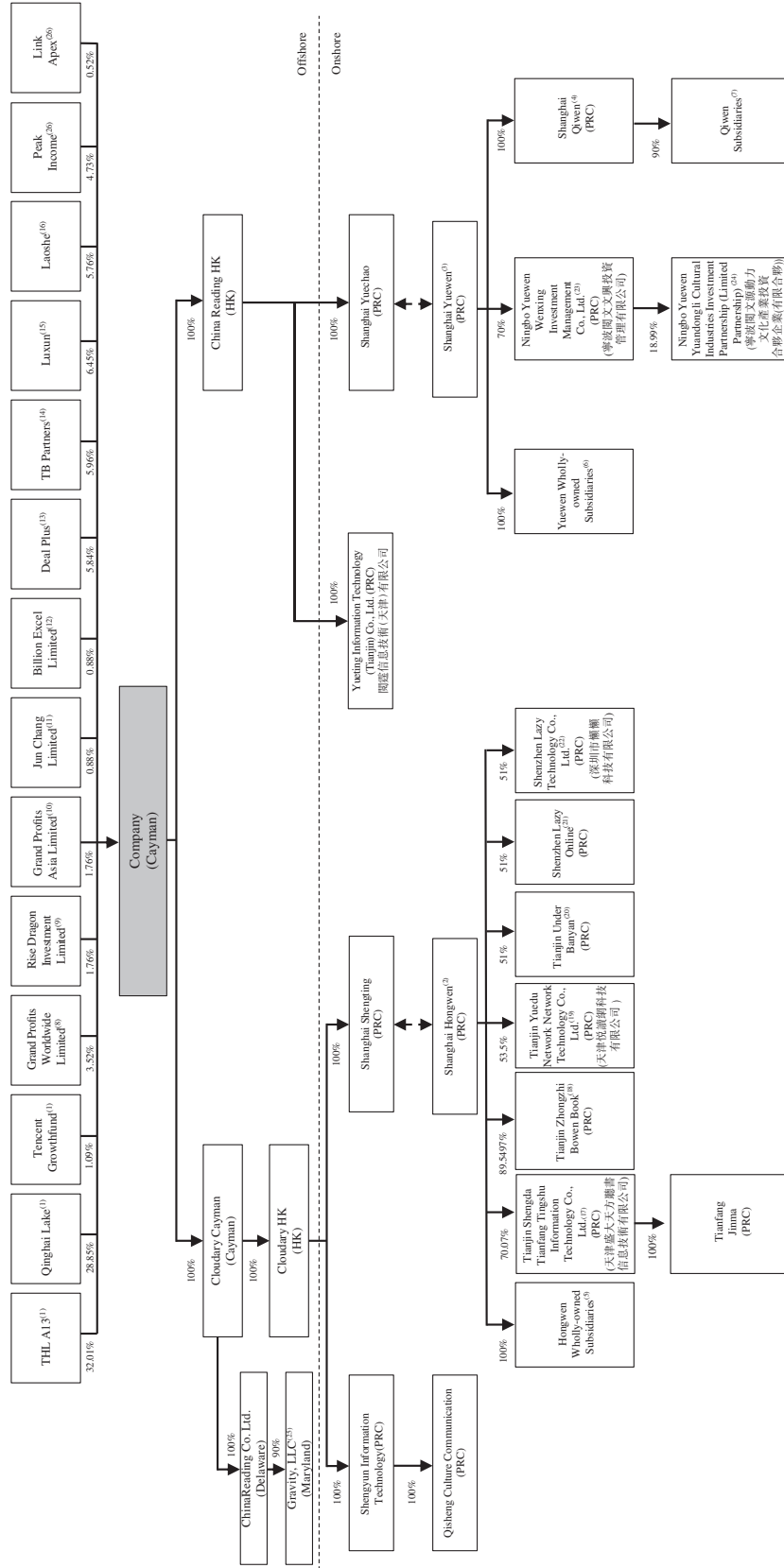
On the basis that (i) the consideration for the Pre-IPO Investments was settled more than 28 clear days before the date of our first submission of the listing application form, to the Listing Division of the Stock Exchange in relation to the Listing and (ii) the special rights granted to the Pre-IPO Investors will terminate prior to the Listing, the Joint Sponsors have confirmed that the investments of the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017. Based on the documents provided by the Company relating to the Pre-IPO Investments, the Joint Sponsors confirm that they are not aware of any divestment rights as contemplated under the Guidance Letter HKEx-GL-43-12 under the terms of the Pre-IPO Investments.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

### Corporate structure after Reorganization and before the Global Offering

The following chart depicts the shareholding and beneficial ownership structure of our Group immediately prior to the completion of the Global Offering:



→ Direct Ownership

↔ Contractual Arrangements. See the section headed "Contractual Arrangements" in this document for further details

*Notes:*

- (1) THL A13, Qinghai Lake and Tencent Growthfund are wholly-owned subsidiaries of Tencent.
- (2) Shanghai Hongwen is owned by Litong as to 65.38% and Ningbo Meishan Yuebao as to 34.62%. See the section headed “Contractual Arrangements” in this document for further details.
- (3) Shanghai Yuewen is owned by Litong as to 65.38% and Ningbo Meishan Yuebao as to 34.62%. See the section headed “Contractual Arrangements” in this document for further details.
- (4) Shanghai Qiwen is wholly-owned by Shanghai Yuewen (上海閱文信息技術有限公司).
- (5) Hongwen Wholly-owned Subsidiaries include:
  - (a) the following directly wholly-owned subsidiaries established in the PRC:
    - i. Beijing Yuewen Xingyao Television Culture Co., Ltd. (北京閱文星耀影視文化有限公司)
    - ii. Tianjin Huawen Tianxia Book
    - iii. Tianjin Jushi Wenhua Book
    - iv. Shanghai Yuewen Television Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司)
  - (b) the following indirect wholly-owned subsidiaries established in the PRC:
    - i. Beijing Hongwen Museum Publishing Planning Co., Ltd. (北京弘文館出版策劃有限公司), which is a direct wholly-owned subsidiary of Tianjin Huawen Tianxia Book
    - ii. Beijing Poly Stone Culture Co., Ltd. (北京聚石文華文化有限公司), which is a direct wholly-owned subsidiary of Tianjin Jushi Wenhua Book
- (6) Yuewen Wholly-owned Subsidiaries include:
  - (a) the following direct wholly-owned subsidiaries established in the PRC:
    - i. Shanghai Xuanting
    - ii. Wangwen Xinyue
    - iii. Beijing Hongxiu
    - iv. Beijing Yuewen Science and Technology Co., Ltd. (北京閱聞科技有限公司)
    - v. Xiaoxiang College
    - vi. Ningbo Meishan Bonded Port Area Xinrui Investment Co., Ltd. (寧波梅山保稅港區鑫銳投資有限公司). As of the Latest Practicable Date, Ningbo Meishan Bonded Port Area Xinrui Investment Co., Ltd. (寧波梅山保稅港區鑫銳投資有限公司) was in the process of liquidation.
    - vii. Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司)
    - viii. Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司). As of the Latest Practicable Date, Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司) was in the process of liquidation.
  - (b) the following indirect wholly-owned subsidiaries established in the PRC:
    - i. Tianjin Xuanting Information Technology Co., Ltd. (天津玄霆信息科技技術有限公司), which is a direct wholly-owned subsidiary of Shanghai Xuanting
    - ii. Shanghai Yuehuo Information Technology Co., Ltd. (上海閱活信息技術有限公司), which is a direct wholly-owned subsidiary of Shanghai Xuanting
    - iii. Beijing Reading Technology Co., Ltd. (北京閱言科技技術有限公司), which is a direct wholly-owned subsidiary of Beijing Hongxiu
    - iv. Suzhou Jingwei, which is a direct wholly-owned subsidiary of Xiaoxiang College

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (7) Qiwen Subsidiaries include:
- (a) Ningbo Meishan Bonded Port Area Leadership Investment Partnership (Limited Partnership) (寧波梅山保稅港區領導投資合夥企業(有限合夥)) is a limited partnership controlled by its general partner, Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司). The interests of Ningbo Meishan Bonded Port Area Leadership Investment Partnership (Limited Partnership) are owned by Shanghai Qiwen as to 90% and Ningbo Xihe Investment Management Co., Ltd. as to 10%. Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司) is a direct wholly-owned subsidiary of Shanghai Yuewen.
  - (b) Ningbo Meishan Bonded Port Area Zhongxin Investment Partnership (Limited Partnership) (寧波梅山保稅港區中欣投資合夥企業(有限合夥)) is a limited partnership controlled by its general partner, Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司). The interests of Ningbo Meishan Bonded Port Area Zhongxin Investment Partnership (Limited Partnership) are owned by Shanghai Qiwen as to 90% and Ningbo Xihe Investment Management Co., Ltd. as to 10%. Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司) is a direct wholly-owned subsidiary of Shanghai Yuewen.
  - (c) Ningbo Meishan Bonded Port Area Lingyue Investment Partnership (Limited Partnership) (寧波梅山保稅港區靈悅投資合夥企業(有限合夥)) is a limited partnership controlled by its general partner, Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司). The interests of Ningbo Meishan Bonded Port Area Lingyue Investment Partnership (Limited Partnership) are owned by Shanghai Qiwen as to 90% and Ningbo Yuemeng Investment Management Co., Ltd. as to 10%. Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司) is a direct wholly-owned subsidiary of Shanghai Yuewen. As of the Latest Practicable Date, Ningbo Meishan Bonded Port Area Lingyue Investment Partnership (Limited Partnership) was in the process of liquidation.
  - (d) Ningbo Meishan Bonded Port Area Zhixuan Investment Partnership (Limited Partnership) (寧波梅山保稅港區智軒投資合夥企業(有限合夥)) is a limited partnership controlled by its general partner, Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司). The interests of Ningbo Meishan Bonded Port Area Zhixuan Investment Partnership (Limited Partnership) are owned by Qiwen Information Technology as to 90% and Ningbo Yuemeng Investment Management Co., Ltd. as to 10%. Ningbo Yuemeng Investment Management Co., Ltd. is a direct wholly-owned subsidiary of Yuewen Information Technology. As of the Latest Practicable Date, Ningbo Meishan Bonded Port Area Zhixuan Investment Partnership (Limited Partnership) was in the process of liquidation.
- (8) The entire interest of Grand Profits Worldwide Limited is held by Mr. Wu Wenhui (吳文輝).
- (9) The entire interest of Rise Dragon Investment Limited is held by Mr. Shang Xuesong (商學松).
- (10) The entire interest of Grand Profits Asia Limited is held by Mr. Lin Tingfeng (林庭鋒).
- (11) The entire interest of Jun Chang Limited is held by Mr. Hou Qingchen (侯慶辰).
- (12) The entire interest of Billion Excel Limited is held by Mr. Luo Li (羅立).
- (13) Deal Plus is a British Virgin Islands organized company owned as to 48.9% by THL A13, 36.1% by TB Partners and 15% by an Independent Third Party.
- (14) TB Partners is a U.S.-dollar denominated Cayman Islands limited partnership fund managed by Trustbridge and its affiliates. A wholly-owned subsidiary of Tencent is one of the limited partners of TB Partners.
- (15) Luxun is wholly-owned by investment funds managed and advised by The Carlyle Group.
- (16) Laoshe is wholly-owned by investment funds managed and advised by The Carlyle Group.
- (17) The interests of Tianjin Shengda Tianfang Tingshu Information Technology Co., Ltd. (天津盛大天方聽書信息技術有限公司) are owned by Shanghai Hongwen as to 70.07%, Mr. Yang Jinyu (楊金鈺) as to 20.33%, Mr. Li Tao (李濤) as to 7.6% and Mr. Xie Maopei (謝茂培) as to 2%. Mr. Yang Jinyu, Mr. Li Tao and Mr. Xie Maopei are Independent Third Parties, save for their interests in Tianjin Shengda Tianfang Tingshu Information Technology Co., Ltd.
- (18) The interests of Tianjin Zhongzhi Bowen Book are owned by Shanghai Hongwen as to 89.55% and Mr. Hou Haitao (侯海濤) as to 10.45%. Mr. Hou Haitao is an Independent Third Party, save for his interests in Tianjin Zhongzhi Bowen Book.

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- (19) The interests of Tianjin Yuedu Network Technology Co., Ltd. (天津悅讀網科技有限公司) are owned by Shanghai Hongwen as to 53.5%, Ms. Zeng Yihong (曾義紅) as to 11.25%, Mr. Fu Zhenxing (付振興) as to 8.40%, Mr. Zhang Jidong (張及東) as to 7.99%, Mr. Zhang Wei (張維) as to 7.24%, Mr. Yang Zhenyu (楊振宇) as to 5.43%, Mr. Song Jie (宋潔) as to 5.24% and Mr. Dong Shuangfei (董雙飛) as to 0.95%. The other shareholders of Tianjin Yuedu Network Technology Co., Ltd., namely Ms. Zeng Yihong, Mr. Fu Zhenxing, Mr. Zhang Jidong, Mr. Zhangwei, Mr. Yang Zhenyu, Mr. Song Jie and Mr. Dong Shuangfei, are Independent Third Parties, save for their interests in Tianjin Yuedu Network Technology Co., Ltd. As of the Latest Practicable Date, Tianjin Yuedu Network Technology Co., Ltd. was being liquidated.
- (20) The interests of Tianjin Under Banyan is owned by Shanghai Hongwen as to 51% and Ms. Zhang Baohua (張寶華) as to 49%. For further information of this entity, see the paragraph headed “Tianjin Under Banyan Information Technology Co., Ltd.” below.
- (21) The interests of Shenzhen Lazy Online are owned by Shanghai Hongwen as to 51%, Mr. Song Bin (宋斌) as to 36.17% and Mr. Liu Xiaosong (劉曉松) as to 12.83%.
- (22) The interests of Shenzhen Lazy Technology Co., Ltd. (深圳市懶懶科技有限公司) are owned by Shanghai Hongwen as to 51%, Mr. Song Bin (宋斌) as to 36.17% and Mr. Liu Xiaosong (劉曉松) as to 12.83%. Mr. Song Bin and Mr. Liu Xiaosong are Independent Third Parties, save for their interests in Shenzhen Lazy Online Technology Co., Ltd. and Shenzhen Lazy Technology Co., Ltd. As of the Latest Practicable Date, Shenzhen Lazy Technology Co., Ltd. was being liquidated.
- (23) The interests of Ningbo Yuewen Wenxing Investment Management Co., Ltd. (寧波閱文文興投資管理有限公司) are owned by Shanghai Yuewen as to 70% and Ningbo Zhixin Investment Management Partnership (Limited Partnership) (寧波攀信投資管理合夥企業(有限合夥)) as to 30%. Ningbo Zhixin Investment Management Partnership (Limited Partnership) is an Independent Third Party.
- (24) The interests of Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership) (寧波閱文源動力文化產業投資合夥企業(有限合夥)) is a limited partnership controlled by its general partner, Ningbo Yuewen Wenxing Investment Management Co., Ltd. (寧波閱文文興投資管理有限公司). The interests of Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership) are owned by its general partner Ningbo Yuewen Wenxing Investment Management Co., Ltd. (寧波閱文文興投資管理有限公司) as to 18.99%, and its limited partners, namely, Ningbo Zhixin Investment Management Partnership (Limited Partnership) as to 25.06%, Mr. Ma Zhongjun (馬中駿) as to 27.85%, Ms. Hu Ming (胡明) as to 10.70%, Mr. Wang Jian (王健) as to 6.96% and Ms. Zhou Sese (周瑟瑟) as to 10.44%. Mr. Ma Zhongjun, Ms. Hu Ming, Mr. Wang Jian and Ms. Zhou Sese are Independent Third Parties, save for their interests in Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership).
- (25) The interests of Gravity, LLC are owned by ChinaReading Co. Ltd. as to 90% and by Mr. Richard Kong, an Independent Third Party, as to 10%.
- (26) Link Apex and Peak Income are entities holding the 40,409,091 Shares issued by our Company on October 12, 2017 pursuant to the RSU Plan on trust for and on behalf of the grantees or the Company (as the case may be). For further details, see the section headed “Statutory and General Information — D. RSU Plan” in Appendix IV to this document.





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### TIANJIN UNDER BANYAN INFORMATION TECHNOLOGY CO., LTD.

Tianjin Under Banyan is owned by Shanghai Hongwen as to 51% and Ms. Zhang Baohua (張寶華) as to 49%.

Under an investment agreement (the “IA”) entered into between Shanghai Hongwen, Ms. Zhang Baohua and another party named therein dated September 29, 2009, among other things, it was agreed that (i) Shanghai Hongwen was responsible for the listing of Tianjin Under Banyan; (ii) consent from Ms. Zhang Baohua must be obtained in the event Shanghai Hongwen includes its 51% interest in Tianjin Under Banyan in any listing or reorganization activities; (iii) Ms. Zhang Baohua reserved the right to be included in such activities owing to her 49% interest in Tianjin Under Banyan; and (iv) Shanghai Hongwen guaranteed Ms. Zhang Baohua that the same valuation to be used in such listing or reorganization will be used for the shares of Tianjin Under Banyan for this subject matter.

As the entity for the purpose of the Listing is our Company, rather than Shanghai Hongwen or Tianjin Under Banyan, we are of the view that the above requirements do not apply to the present Listing and the present Listing is therefore not subject to consent from Ms. Zhang Baohua. Our PRC Legal Advisor has advised us that, on the proper construction of the IA, the likelihood that the PRC courts would construe the IA to extend to the present Listing and for Ms. Zhang Baohua to have a successful cause of action directly against us to take part in the Listing using her 49% interest in Tianjin Under Banyan is remote given that: (a) our Company is not a party to and is therefore not bound by the IA; (b) the shareholders of our Company are not parties to the IA, while the PRC court does not have the power to order that the shareholding of Ms. Zhang Baohua be replaced by shares of our Company as it is a company incorporated in the Cayman Islands; and (c) there is a lack of operative terms in the IA to execute such tag-along rights (e.g., the form, approach, price and procedure) relating to the Listing.

On October 19, 2017 we were notified that Ms. Zhang Baohua had filed legal proceedings with the District Court in Haidian, Beijing, on October 16, 2017 seeking to enforce her rights under the IA. For further details, please refer to the section headed “Business — Legal Proceedings and Compliance” in this document.

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled



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directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that prior CSRC approval for this offering is not required because (i) Shanghai Shengting, Shengyun Information Technology and Yueting Information Technology (Tianjin) Co., Ltd. (閱霆信息技術(天津)有限公司) were respectively incorporated as foreign-invested enterprises without involving acquisition of the equity or assets of a "PRC domestic company" (as such term is defined under the M&A Rules), (ii) Shanghai Yuechao was incorporated as a domestic company in February 2013 and became a sino-foreign equity joint venture on August 8, 2014 in compliance with the M&A Rules, such that the M&A Rules are not applicable to it thereafter. Subsequently, Shanghai Yuechao was redesignated as a wholly foreign-owned enterprise, and (iii) other than Shanghai Shengting, Shengyun Information Technology and Shanghai Yuechao, all of our other PRC subsidiaries have been wholly-owned by PRC citizens since their dates of incorporation, and as such, the M&A Rules are not applicable to them. As a result, we did not seek prior CSRC approval for this Offering. However, we cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC Legal Advisor. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. Based on the above, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

### SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知》) (the "SAFE Circular 37"), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the "Overseas SPV") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

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Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisor, our individual Shareholders who are PRC citizens have completed their registration under the SAFE Circular 37.

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### OUR MISSION

Our mission is to create value for writers and to bring literature to people.

### COMPANY OVERVIEW

We are a pioneer of China's online literature market and operate the leading online literature platform as measured by the scale and quality of our writers, readers and literary content offerings, according to the Frost & Sullivan report. As of June 30, 2017, we had 6.4 million writers and 9.6 million literary works. In the six months ended June 30, 2017, average MAUs, calculated as the average of MAUs for each calendar month, on our platform and our self-operated channels on partner distribution platforms reached 191.8 million, comprising 179.3 million on mobile and 12.5 million on PC. Since the launch of the *qidian.com* website in 2002, we have been critical in establishing and developing the commercial model for online literature in China to drive the growth of the overall online literature industry. In December 2014, we acquired Cloudary with the intention to acquire its literary content and its several literary websites, and to create a leading market position in the online literature market in China with the largest user base, deepest writer pool, most comprehensive content library and strongest monetization capability. Today, our online literature platform connects major constituents of the online literature ecosystem, including writers, readers and content adaptation partners.

Our platform provides our online readers with easy access to our vast and diverse content library and enables a greater number of writers to create and publish original literary content online. To ensure the continued engagement of our readers and the activity of our writers, we enable and promote social interaction and direct engagement amongst our proprietary community of readers and writers. Additionally, we are able to extend the monetization lifecycle of our content for our writers through our intellectual property operations by managing and licensing our content for adaptation into other entertainment formats. As our readers, writers, content, and intellectual property operations are connected, each of their growth fuels a virtuous cycle that adds to the scalability and strength of our overall platform.

We operate a multi-layered content distribution network and provide our content directly to the largest online audience for original online literary works in China. Among our products, our flagship product, *QQ Reading*, is a unified mobile content aggregation and distribution platform, while other branded products on mobile and PC focus more specifically on individual genres and their respective user followings. Through our strategic partner, Tencent, we have exclusive and direct distribution access through its portfolio of leading Internet products, including *Mobile QQ*, *QQ Browser*, *Tencent News* and *Weixin Reading*. Our cooperation with Tencent allows us to have access to user data generated from our self-operated channels on Tencent products and enables us to broaden our user reach given Tencent's leading position in the PRC Internet industry, as well as the vast user base of Tencent's online platforms. Our readers are also highly engaged. During the first quarter of 2017, users of our flagship *QQ Reading* app spent an average of 60 minutes a day on the app, ranking first amongst online reading apps in China according to the Frost & Sullivan report. We also license our

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content to third-party distribution partners such as *Baidu*, *Sogou*, *JD.com* and *Xiaomi Duokan* for distribution on their own platforms. These third-party platforms generally do not provide us direct access to user data, and they share with us a portion of the online reading revenues generated by our literary content.

Our content library is core to what we do. This vast, proprietary library of literary works comprises a diverse collection of original content largely available exclusively for our direct distribution and monetization through online paid reading as well as adaptation into other media formats often over long contracted periods, typically 20 years or longer. As of June 30, 2017, our content included 9.2 million original literature works spanning over 200 genres, complemented by approximately 410,000 works including those sourced from third-party online platforms as well as digital e-book versions of physical works. In 2016, nine of the top ten most searched online literary works published in China, as ranked by *Baidu*, were from content library. In addition to diversity and quality, our content is often serialized in nature and continuously updated. For the year ended December 31, 2016 and the six months ended June 30, 2017, writers on our platform updated and generated a total of approximately 61.5 billion new characters, contributing to approximately 33.6 million new chapters. Our content library provides us with an enduring runway of high quality intellectual property that lends itself well to copyrighted content franchising. With our proprietary reader feedback data, we are uniquely equipped to manage the IP adaptation process for our writers and identify the most suitable IP for adaptations. According to the Frost & Sullivan report, among online literature-adapted domestic entertainment products, 13 of the top 20 films by box office, 15 of the top 20 most viewed TV series, 14 of the top 20 most viewed web series, 15 of the top 20 most downloaded online games and 16 of the top 20 most viewed animations, in each case released in China in 2016, were based on literary titles developed on our platform.

Since the acquisition of Cloudary in December 2014, we have experienced significant growth. Our total revenues increased by 59.1% from RMB1.6 billion in 2015 to RMB2.6 billion in 2016 and increased by 92.5% from RMB999.6 million in the six months ended June 30, 2016 to RMB1.9 billion in the six months ended June 30, 2017, while our gross profit increased by 81.7% from RMB580.5 million in 2015 to RMB1.1 billion in 2016, and increased by 135.7% from RMB408.2 million in the six months ended June 30, 2016 to RMB962.2 million in the six months ended June 30, 2017. We had a net profit of RMB30.4 million in 2016, compared with a net loss of RMB354.2 million in 2015, and had a net profit of RMB213.5 million in the six months ended June 30, 2017, compared with a net loss of RMB2.4 million in the six months ended June 30, 2016. Our goodwill accounted for 58.2%, 58.4%, 52.1% and 44.3% of our total assets as of December 31, 2014, 2015 and 2016 and June 30, 2017, respectively, and our other intangible assets, which mainly included trademarks and copyrights of contents, accounted for 18.6%, 17.1%, 13.5% and 10.6% of our total assets as of the same dates, respectively. See the section headed “Financial Information — Intangible Assets” in this document for more details. Excluding the impact of share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses, and tax effects, we had an adjusted net profit of RMB81.1 million in 2016, compared to an adjusted net loss of RMB94.2 million in 2015, and we had an adjusted net profit of RMB302.8 million in the six months ended June 30, 2017, compared to an adjusted net loss of RMB44.8 million in the six months ended June 30, 2016. See the sections headed “Financial Information — Consolidated Income Statement” and “Financial Information — Non-IFRS Measures: Adjusted Operating Profit/(Loss), Adjusted EBITDA and Adjusted Net Profit/(Loss)” in this document.

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We have entered into a number of transactions with the Retained Tencent Group, including (i) distribution of our literary works through the online platforms owned by the Retained Tencent Group; (ii) cooperation in the adaptation of our literary works and/or distribution of products adapted from these literary works; and (iii) certain other non-exempt continuing connected transactions. In relation to these transactions, we are of the view that we do not and will not significantly rely on the Retained Tencent Group. See the section headed “Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Operational Independence” in this document for further details.

### OUR STRENGTHS

We are uniquely situated at the center of China’s online literature ecosystem, connecting writers, readers, and content adaptation partners. According to the Frost & Sullivan report, among online literature platforms in China, we ranked first in terms of:

- the number of writers, with 5.3 million writers as of December 31, 2016;
- the scale of our content library, with 8.4 million literary titles, including 8.0 million original titles, spanning over 200 genres as of December 31, 2016;
- the size of our user base, with total MAUs of our products and of our self-operated channels on Tencent products reaching 175.3 million in December 2016;
- user engagement, with users on our *QQ Reading* mobile app spending an average of one hour per day on our app in the first quarter of 2017; and
- the track record of our content library adaptation, with 13 of the top 20 box office grossing films, 15 of the top 20 most viewed TV series, 14 of the top 20 most viewed web series, 15 of the top 20 most downloaded online games and 16 of the top 20 most viewed animation works, in each case among domestic online literature-adapted entertainment products released in 2016 in China, based on online literary titles developed on our platform.

We believe the following strengths contribute to our leading position and success:

### Innovative Pioneer

We have established our market leadership through creating a new commercial market and continuous innovation. In 2002, the *qidian.com* website was launched to enable writers and readers to interact more immediately and intimately than was possible offline. Since then, we have defined the operating standards and best practices for this emerging market, pioneering the online paid reading model, creating comprehensive benefit packages and promotional systems for writers, institutionalizing intellectual property ownership, and developing content adaptation opportunities in multiple entertainment formats. We have also been instrumental in driving the rising popularity of online literature nationally both directly through marketing campaigns as well as indirectly through fostering the creation and facilitating the dissemination of popular content.

### **Established and Vibrant Community**

We have revolutionized literature creation by adding interactivity and engagement to the historically solitary acts of writing and reading, and so fostered an established and vibrant community of writers, editors and readers. As part of the creative process, writers interact directly with readers and our editors. Due to the serialized nature of our content, writers often draw inspiration from readers' feedback to help them produce content that is consistent with readers' preferences. Editors help ensure that the feedback is incorporated in the most effective and impactful manner. Readers, in turn, are motivated to participate and contribute using a plethora of community and social network tools. In June 2017, over 40% of the MAUs of *QQ Reading* interacted with writers and with each other.

A key pre-condition to the proper functioning of a virtuous feedback loop is the size and vibrancy of our writer and reader bases. Writers, both established and aspiring, are drawn to our platform by our editorial staff and services, an immense and highly engaged reader base, as well as the opportunity to monetize their works. Readers are attracted to our platform by our abundant library catalog, our high quality new releases, and the breadth of attractive community features.

### **Deep Pool of Writers and Vast Library of Exclusive Original Content**

Popular content is the core attraction for our readers. Our strong content creation model benefits from a deep pool of writers. As of December 31, 2016, we had 5.3 million writers on our platform, representing 88.3% of all online literature writers in China. Of the top 50 most popular original online literature writers in China in 2016, as ranked by Frost & Sullivan, 41 writers had entered into exclusive publishing relationships with us.

Our writers have helped us create and amass the largest online literature library in China, comprising 9.6 million titles, of which 9.2 million are original works, spanning over 200 popular and niche genres as of June 30, 2017. In the six months ended June 30, 2017, an aggregate of 20.1 billion Chinese characters, one to three of which typically form a Chinese word, and 11.6 million chapters of literature content were created on our platform.

Our writers and their works cover a wide spectrum of reader interests, ranging from mainstream genres featured in traditional publishing, to those genres that we believe are under-served in traditional publishing, such as fantasy and *xianxia* novels (depicting stories of fairies and mystical heroes). The depth and vibrancy of our community empowers consistent content innovation across new genres, such as time travel novels, that align with emerging cultural themes and evolving tastes of readers, especially younger generation readers who grow up with our platform.

Our content library provides us with an enduring runway of high quality intellectual property that forms the foundation of our robust online paid reading model and lends itself well to copyrighted content franchising.

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### **Extensive Reader Reach and Scale**

We have a multi-tiered content distribution network capable of reaching a vast base of Internet users on a daily basis. In the six months ended June 30, 2017, average MAUs on our products and our self-operated channels reached 191.8 million MAUs, of which 179.3 million were on mobile.

Among our products: *QQ Reading* serves as a content aggregator, and individually branded mobile apps websites, such as *qidian.com* and *chuangshi.qq.com*, nurture customized literature experiences for our readers. Each of our branded products has its own history, identity, theme and often its own loyal reader following. We also have unbranded white-label products that are available through pre-installation on mobile devices manufactured by our partners. Our sophisticated data analytics capabilities enable us to continuously enhance user experience by studying the behavior and profile of individual users and their social network friends. We frequently upgrade our content recommendation algorithm in order to better curate content to attract readers. In the six months ended June 30, 2017, we had 88.3 million average MAUs on our products, of which 75.8 million were on mobile.

Our shareholder and strategic partner, Tencent, provides us with exclusive literary content distribution access to a host of its popular products, including *Mobile QQ*, *QQ Browser*, *Tencent News* and *Weixin Reading*. In the six months ended June 30, 2017, the average MAUs of our self-operated channels on Tencent products were 103.5 million, all of which were on mobile. We have also established content distribution relationships with leading Internet and telecommunications partners in China, such as *Baidu*, *Sogou*, *JD.com* and *Xiaomi Duokan*.

Our user coverage goes beyond online reading, extending into adapted films, TV and web series, online games, animations and other entertainment formats. Success of the adaptations can fuel interest in our original literary titles and their associated genres, thus bringing new users to our platform and enhancing user stickiness.

### **Robust Editorial Capabilities**

As part of our community, we have built a team of seasoned editors who play a critical role in the proper functioning of our content creation engine. Our editors provide writers with valuable advice on how to improve the literary and commercial value of their works, in part by synthesizing and helping incorporate readers' feedback. At times, our editors help develop new genres to meet the evolving tastes and preferences of our readers. They also catalog and curate literary titles to foster customized reading experience. In addition, our editors guide the content adaptation process by driving content discovery and contributing their in-depth understanding of literary works.

As of June 30, 2017, we had approximately 340 professional editors. We count among our ranks some of the most renowned editors in China's online literature industry who have discovered and promoted many of the most popular writers and original online literary works of our generation.



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### **Sophisticated Intellectual Property Operations**

We have developed an active and sophisticated intellectual property operations business. We actively manage intellectual property rights associated with our content. We bring significant value to the content adaptation process with our profound understanding of the online literature industry and our proprietary readership data. Our active cooperation with content adaptation partners keeps us abreast of evolving market trends, which enables us to refine the assessment of our content's commercial potential. Situated upstream within the entertainment value chain, we provide the best content resources for cohesive and integrated development of derivative entertainment products in an otherwise highly fragmented entertainment industry. We have established cooperative relationships with over 200 content adaptation partners as of June 30, 2017.

We adopt a sophisticated approach in determining our financial and operational involvement in the content adaptation process. We assess the nature and commercial potential of a literary title and implement appropriate deal arrangements with content adaptation partners in order to maximize the title's reader reach and monetization potential. We seek to carefully manage the timing of development and release of entertainment products based on the same source material in a successive and coherent manner, so as to fully benefit from promotional and marketing efforts.

### **Trailblazing Management Team**

We benefit from the leadership of the management team that effectively created the online literature industry in China. They have responded effectively to industry changes and capitalized on emerging market opportunities, including our mobile transition. In addition, the team has successfully sourced, executed and integrated several key acquisitions.

Our executive officers have on average 15 years of relevant industry experience. One of our co-CEOs, Mr. Wu Wenhui, co-founded our website *qidian.com* and is widely regarded as the pioneer of the online literature market in China. *Qidian.com* was the first online literature website in China to adopt the paid reading model, which has become a standard practice in China's online literature market. In 2016, Mr. Wu was named a *Leading Figure of the Chinese Internet Industry* at the second annual *Summit of Internet Leaders in China*. Mr. Liang Xiaodong, our other co-CEO, has rich managerial experience in the Internet industry, previously serving as the CEO and CFO of Cloudary, the literature platform of Shanda Interactive Entertainment Limited. Our President, Mr. Shang Xuesong, was also one of the co-founders of *qidian.com*. Mr. Shang has amassed substantial managerial experiences in high quality original literary content and operational infrastructure of online literature platforms.



### **OUR STRATEGIES**

To achieve our mission and further solidify our leadership position, we intend to pursue the following strategies:

#### **Systematically Attract, Nurture and Promote Writers**

Writers are vital to our future growth. We will continue devoting resources towards identifying, nurturing and promoting promising writers. To strengthen our appeal and relationship with writers, we build customized cooperative relationships with writers to increase the popularity and monetization potential of their literary works. We also intend to leverage the expertise and commercial know-how of our content adaptation partners to systematically promote content from our best-selling writers.

#### **Further Expand Our Mobile Reading Market Share**

We will seek to expand our mobile reading market share through better content offerings, enhanced user experience and broadened distribution channels.

For original content offerings, we will focus on expanding the breadth of our literary genres, especially our coverage of long-tail and niche literature categories through content segmentation and cultivation of user reading behaviors and preferences. For e-books, we intend to increase the number of literary titles available on our platform, including the number of exclusive titles and debut offerings. We also plan to strengthen our editorial capabilities through enhanced training and recruitment of literary talent. Further, we intend to pursue selective strategic alliances or acquisitions to capture emerging opportunities for content library expansion.

We plan to enhance the user experience on our mobile apps through improved functionalities and services. We intend to enhance our customized and precise literary content recommendation capability by developing our data analytics and artificial intelligence technology, refining our algorithms and streamlining our content evaluation processes. We will make our content library easier to search and navigate for our users by improving content layout and categorization. We also seek to reinforce the stickiness of our community by introducing more interaction functionalities for readers and writers.

In addition, we plan to broaden our mobile Internet distribution channels in order to reach a wider user base and fortify our leadership position. For example, we intend to expand our network of mobile device manufacturer partners in order to broaden our mobile app pre-installation channel. We will progressively adopt an advanced data-driven approach to our marketing and promotional efforts, in order to reach our addressable demographics in a more effective and efficient manner.

#### **Unleash the Monetization Potential of our Intellectual Property**

We will continue extending our own, and our writers' intellectual property across non-book entertainment media formats to reach more users, and to broaden and deepen our revenue streams. We will actively participate in setting the production, release and promotional timetables of content adaptations, such as films, TV and web series, online games and animations.

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Where appropriate, we will explore ways to participate more deeply in the entertainment product development process. We plan to gain greater operational control by leveraging our insights into the original literary titles, forming joint venture with other participants in the entertainment industry, and selectively investing our capital in content adaptations. Specifically, (i) for TV and web series, we will allocate a majority of our capital investments in adapted works and strengthen our cooperation with internet video platforms, (ii) for films, we will strengthen our cooperation with screenplay and production studios via capital investments or joint ventures, (iii) for animations, we will continue to deepen our footprint in the production process of adapted works, and (iv) for our most popular literary titles, we will focus on franchise development of derivative entertainment products across all major media formats, as well as on developing serials rather than one-off products.

### **Promote Intellectual Property Protection in China**

Piracy posts a significant challenge to the literature market in China, and the successful tackling of piracy may give rise to significant content demand for copyrighted literary materials. We intend to continue our efforts to support intellectual property protection by organizing campaigns together with government authorities, writers and other industry participants. To promote the healthy development of the online literature market in China, we will seek to cooperate with leading Internet companies in China to market our copyrighted and exclusive content offerings and to diminish the distribution network of pirated materials online.

As part of our content monitoring efforts, we will continue to develop cutting-edge technology to enhance the efficiency of internal anti-piracy and anti-plagiarism screening.

### **Selectively Pursue Strategic Alliances, Investments and Acquisitions**

As part of our growth strategy, we have formed strategic alliances and partnerships and completed investments and acquisitions in recent years. We will continue to selectively pursue strategic alliances, investments and acquisitions that we believe can expand our content creation, sourcing, distribution and adaptation capabilities and strengthen our technological capabilities. For example, we plan to capture emerging opportunities for content library expansion through strategic alliances and acquisitions, such as literary content providers that focus on specific genres and companies that offer innovative online reading products and solutions to readers. For selected blockbuster content franchising, we intend to directly invest our capital in content adaptations. We intend to further strengthen and optimize the adaptation of our literary content by investing in targets with animation production, screenplay composition and derivative merchandizing capabilities. In selecting investment targets, we generally consider the following factors: suitability with our strategic planning, degree of potential synergies, market position, experience of management team, valuation, historical operating metrics and financial performance.

### **Expand Our Business Internationally**

There is a growing interest in and demand for Chinese-themed literary works from a number of English-speaking countries and from Southeast Asia. To meet this demand, we intend to launch more international online literature platforms featuring local language content based on Chinese stories or

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works of Chinese writers, and gradually expand the scope and depth of our international content offerings. As a first step, we will focus on providing high quality English translations of our Chinese literary content to international readers. In this regard, we intend to pursue strategic partnerships with third-party platforms with rich repertoire of English translation works and significant reader base in order to accelerate our overseas market expansion. In addition, we intend to cooperate with global publishing, distribution and content adaptation partners to introduce our high quality literature content in local languages.

### OUR ECOSYSTEM AND ITS PARTICIPANTS

We designed and developed our online platform around online literature, its writers and its readers in China. We have a large and growing library of online literature, and our platform allows us to manage the entire lifecycle of the content created on our platform as illustrated in the diagram below. We help writers create relevant and valuable online literary content for consumption by our large number of online readers. Through the intellectual property operations on our platform, we manage content for our writers and license our content to content adaptation partners, allowing them to create audio-visual and interactive adaptations across numerous media formats.



Our ecosystem has unique value propositions for each of its constituents. Our collective relationship with them is crucial to the continued strength and value of our overall platform.

- *Value Proposition to Writers:* We enable our writers to distribute their works to the largest online audience for original online literary works in China as well as to third-party platforms who license the content for onward distribution to their own users. Additionally, we allow writers to monetize their writing through online paid reading and through

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licensing their works to our partners who use the content as source material for various adaptations. Along with sales and marketing support, we provide our writers with editorial support and insights into reader preferences based on proprietary data on our platform to help improve and make their writing more relevant. Our interactive social features allow our writers to directly interact with their fans to receive feedback and to promote themselves and their writing.

- *Value Proposition to Readers:* We provide our readers with access to the largest and most diverse library of online literary content in China. Our readers are able to access our content through user-friendly products, on both mobile (app and WAP) and PC. We curate and recommend content to readers to make our content more accessible and simplify the content discovery process. The social and interactive tools on our platform differentiate and enhance the reader experience by adding social elements that enable readers to interact directly with writers and their peers as part of an engaging community.
- *Value Proposition to Content Adaptation Partners:* We provide our content adaptation partners with access to the largest library of original online literary content including many of the most popular works. Our readers also serve as test audiences for our content adaptation partners as success on our platform makes a certain work more likely to succeed in an adapted form. Our intellectual property operations business simplifies and institutionalizes the process for licensing our writers' works for adaptations.

As the various constituents on our platform are inexorably connected, our ecosystem enjoys an overall virtuous cycle that fuels its continued growth and expansion. In the simplest of terms, readers are attracted to our platform by our content while writers are attracted to our platform by the access to both the largest online literature reader base, and our content adaptation partners and the commercial opportunities that they bring. As the number of readers grows, more writers will want to join our platform. More writers will then lead to the creation of more content for reader consumption and intellectual property licensing. A larger content library will help drive more collaboration with adaptation partners and ultimately attract more readers.

Based on the data provided by our readers on our *QQ Reading* app, in 2015, readers below the age of 30, between the age of 30 to 39 and of or above the age of 40 accounted for 82.6%, 13.5% and 3.9%, respectively, of the total numbers of readers who provided such data on such app. In 2016, the percentage of the corresponding age distribution was 78.6%, 15.1% and 6.3%. For the six months ended June 30, 2017, the percentage of the corresponding age distribution was 79.2%, 14.7% and 6.1%. Based on the data provided by our readers on our *qidian.com* website, in 2015, readers below the age of 30 was 78.1%, between the age of 30 to 39 was 15.6% and of or above the age of 40 was 6.3%. In 2016, the percentage of the corresponding age distribution was 73.6%, 19.1% and 7.3%. For the six months ended June 30, 2017, the percentage of the corresponding age distribution was 72.2%, 19.9% and 7.9%. According to Frost & Sullivan, young generation is more receptive and accustomed to engaging in the Internet and mobile activities, and is more willing to pay for entertaining high-quality online activities. As a majority of our readers are below the age of 30, we believe that they have strong needs in online literature reading and are willing to pay for our high-quality literary works.

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In December 2014, we acquired Cloudary. Cloudary commenced and developed its online literature business through a series of acquisitions of operators of online literature platforms in China, including the operators of *qidian.com*, *jjwxc.net* and *hongxiu.com*. Together with its subsidiaries and variable interest entities, Cloudary was principally engaged in providing literary works and other publications offered through PC and mobile distribution and offline publication to a diversified user base, and licensing the copyrights of its literary works to online game companies, television producers, movie studios, and traditional offline book publishers in China. The purpose of our acquisition of Cloudary was to acquire its literary content and its several literary websites, and to create a leading market position in the online literature market in China with the largest user base, deepest writer pool, most comprehensive content library and strongest monetization capability.

Cloudary's online literature community was widely recognized as the leading destination for online literature in China. According to the public information disclosed by Cloudary with the U.S. Securities and Exchange Commission in 2011, five of Cloudary's six original literature websites were among the top ten most visited Chinese literature websites, based on the amount of user time spent in 2011. In 2011, Cloudary captured over 72.1% market share in terms of revenues and 57.7% market share in terms of user time spent in China's online literature market. The *qidian.com* operated by Cloudary was the largest Chinese original literature website with 43.8% of China's online literature market in terms of revenues in 2011. Subsequent to 2011 and through 2014, Cloudary had maintained the leading position in this market.

We paid a consideration of approximately RMB4.5 billion for the acquisition of Cloudary, which was based on our evaluation of Cloudary's business taking into consideration of its strengths and industry position described above and the potential synergies between Cloudary and our business to be achieved from this acquisition. The consideration was negotiated on an arm's length basis between us and Cloudary's selling shareholders. Goodwill of approximately RMB3.7 billion arose from the acquisition, which was attributable to the acquired market shares, the strategic market position, as well as the economies of scale expected to be derived from combining Cloudary with our operations. After the acquisition of Cloudary, we established our leading position in China's online literature market.

### **Our Content Library**

#### *Content Nature*

Our online platform primarily focuses on Chinese-language, original literary content. The content is largely fictional and serialized in nature. This means that after a writer publishes a work on our platform, he will continue to update it periodically. Serialized works increase engagement by encouraging readers to routinely come back to follow the development of a story and its characters.

Other works on our online platform include high quality content we source from other online literary platforms, as well as e-books that we have converted from offline physical books in collaboration with certain third-party publishers. Our e-books include best-sellers, both domestic and foreign, as well as classical literature, cultural, historical and self-help books.

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As of June 30, 2017, our content library totaled 9.6 million works, including 9.2 million original works created by writers on and for our platform, 273 thousand works sourced from third-party online platforms and 137 thousand e-books. Our vast and expanding titles of more than 200 genres spanning across our distinctively-themed platform and self-operated channels represent the cumulation of our literary creation and ensure a broad user reach, and enable us to cater to the increasingly diverse interests of our large user base whose preferences are distinctive, constantly evolving and increasingly versatile. We believe that offering tailored and available works for the largest online literature audience in China is particularly critical to maintain and enhance user loyalty to our platform. As of June 2017, our flagship product *QQ Reading* app aggregated approximately 1.3 million literary titles from our various platform products, which were identified as high quality works by our in-house editorial team. During the second quarter of 2017, there were approximately 97,800 literary works on *QQ Reading* app, which attracted 60 minutes' reading time or more of their respective readers on average on a monthly basis. These approximately 97,800 literary works collectively attracted approximately 117 million readers, on average, during each month of the second quarter of 2017.

### **Content Genres**

We strive to provide our users with the broadest and highest quality original online literary content. As of June 30, 2017, our library included literary works spanning over 200 genres, including established genres such as fantasy, *wuxia* (stories about the adventures of martial arts heroes), science fiction, mystery, romance and cosmopolitan, as well as emerging genres such as *chong sheng liu* (重生流, fictional stories about protagonists who are reborn and given the opportunity to change their destinies), *hong huang liu* (洪荒流, fictional stories of young people travelling through time to antiquity and their encounters with mystic gods as they become immortal deities), sports and anime.

### **Content Popularity**

Our content library includes some of the most popular works in online literature in China by some of the most well-known writers. In 2016, nine of the top ten online literary works published in China with the largest volume of search queries on *Baidu's* online search engine were from our content library.

#### **2016 Top 10 Most Searched Online Literary Works**

| Ranking | Title                           | Our Platform | Ranking | Title                                     | Our Platform |
|---------|---------------------------------|--------------|---------|---|--------------|
| 1       | <i>The Great Ruler</i><br>(大主宰) | ✓            | 6       | <i>Fighter of the Destiny</i> (擇天記)       | ✓            |
| 2       | <i>Perfect World</i><br>(完美世界)  | ✓            | 7       | <i>A Thought Through Eternity</i> (一念永恆)  | ✓            |
| 3       | <i>Lord Xue Ying</i><br>(雪鷹領主)  | ✓            | 8       | <i>The Portal of Wonderland</i><br>(玄界之門) | ✓            |
| 4       | <i>Platinum</i> (龍王傳說)          | ✓            | 9       | <i>City Life</i> (超品相師)                   | ✓            |
| 5       | <i>Martial Peak</i><br>(武煉巔峰)   | ✓            | 10      | <i>King of the Eternal Night</i> (永夜君王)   | X            |

## ***Content Creation***

### ***Our Writers***

Our writers are the primary source of new content on our platform. As of June 30, 2017, we had over 6.4 million writers on our platform. Unlike traditional offline publishing, our platform allows writers of all calibers, ranging from amateurs to professionals, to create content, both finished works as well as works-in-progress, for the largest online literature audiences in China. Moreover, writers on our platform will often continue to update their published works after initial publication. In 2016 and the six months ended June 30, 2017, our writers created approximately 61.5 billion new characters, contributing to approximately 33.6 million new chapters.

While our platform is open to writers of all levels, we focus on discovering and cultivating the literary talent on our platform as the quality of our writers directly impacts the quality of our content and in turn impacts our users' experience, engagement and the monetization potential of our content. To ensure continued access to the best content, we enter into commercial arrangements with high quality writers. In 2016, 41 of the top 50 most popular original online literature writers in China, as ranked by Frost & Sullivan based on the volume of internet search queries on *Baidu's* online search engine, had entered into exclusive licensing contracts with us.

To help us identify and track potentially successful writers, we categorize the writers on our platform into four major tiers using proprietary data, including feedback from our readers as well as professional judgment of our in-house editorial team. Those tiers are based on a number of criteria, including but not limited to the commercial quality of a writer's works, activity levels and fan followings. We use our tiering system to help determine the nature of our relationship with each of these writers.

The below table summarizes our writer tiers:

| <b>Writer's Tier</b>  | <b>Description</b>  |
|---|---|
| <b>Non-Contracted Writer (非簽約作家)</b><br><i>Entry-level (公眾作家)</i>                               | <ul style="list-style-type: none"><li>Aspiring writers who are new to writing online literary works</li></ul>   |
| <b>Contracted Writer (簽約作家)</b><br><i>Intermediate-level (普通作家)</i><br><i>Phenomenal (大神作家)</i> | <ul style="list-style-type: none"><li>Promising entry-level writers</li><li>Writers who have demonstrated strong literary creativity and commercial potential</li></ul> |
| <i>Platinum (白金作家)</i>  | <ul style="list-style-type: none"><li>The best-known online literature writers in China who have authored multiple best-sellers with huge fan bases</li></ul>           |

Based on the tier, influence, potential and potential commercial value of the writer, we vary the level of promotional support. For exceptional writers, such as our *phenomenal* and *platinum* writers, we promote and recommend their works on our platform to maximize visibility with readers. We also provide comprehensive external promotional support, including media exposure to raise the profile of those writers more broadly and to enhance their own brands.



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Additionally, we provide a basic level of financial support for writers through our writer welfare program as well as targeted cash incentives to incentivize continued content creation and active engagement amongst our writers. Contracted writers can apply for a basic monthly stipend through our writer welfare program, if they update their literary content on a regular basis.

*Licensing Contractual Arrangement with Writers.* We typically license content either by title (作品約) or by writer (作者約). The former provides us licensing rights to specific works while the latter to all major works written by the contracted writer during the term of the contract. Sometimes, our writer contracts also include works written by the writer prior to him signing a contract with us. Typically, we license content on an exclusive basis. Additionally, the contracted writer is only permitted to publish the works under contract on our platform during the contractual term.

Contracts by title typically last for 20 years or longer, while contracts by writer are for a period typically ranging from five to ten years. Our contracts typically provide for either fixed fees for writers, or revenue-sharing arrangements under which writers receive royalties from online paid reading revenues as well as from other forms of monetization of their works, such as intellectual property licensing. For online reading revenue-sharing, we shall typically make the payments for a certain month to writers prior to the fifteenth business day of the following month according to the agreements with writers. For other forms of revenue-sharing, we typically make the payments to writers within three months of the date that the relevant revenue is collected by us. For details on revenue-sharing arrangements with our sub-licensing content adaptation partners, including the methods for verifying the revenues from the adapted entertainment products, see the section headed “Business — Our Ecosystems and Its Participants — Intellectual Property Operations” in this document.

Our writers are obligated to indemnify us for any losses resulting from violations of their obligations under the licensing contracts with us.

Each of our contracts with our writers is customized. We decide the scope and structure for each licensing agreement based on (i) the popularity of the writer, (ii) monetization potential of the content in terms of online paid reading and (iii) other licensing opportunities for the content. We tend to agree to more generous commercial terms with higher tier writers or for more popular works in exchange for longer contract terms. This is important as the serial nature of much of our popular content and our user behavior mean that the works on our platform tend to have longer commercial lifecycles than typical literary works.

### *Our Editors*

Our in-house editorial team plays a number of critical roles on our platform. Our editors’ primary responsibilities are to improve the quality of our writers’ works and to discover new writer talent. Our editors also manage the distribution of our content. As of June 30, 2017, we had approximately 340 professional full-time editors, including 33 senior editors. Approximately 60% of our senior editors have at least five years of experience, among whom 30% have at least 10 years of experience. These senior editors include some of the most renowned editors in China’s online literature industry. These senior editors have discovered and promoted many of the most popular writers and original online literary works in China.



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We assign editors to cover our branded products largely by content genre. They review newly published literary works of a predetermined maturity and analyze the content quality subjectively based on their own experience and expertise, while referencing user data related to such works, such as number of times the works was archived, reader volume and the number of *likes* received from readers. Once our editors determine that a new writer has potential, they will work with the writer to improve the quality and relevance of his work for our readers. Depending on a writer's potential, he may have either generalist editorial coverage or a dedicated team of editors assigned to him. As part of the editorial process, our editors will continue to provide their own feedback and suggestions as well as collect readers' feedback over time to provide writers with suggestions on the storyline, language and plot points of their works. To many writers, this is a unique resource enabling them to enhance the literary and commercial value of their works.

Finally, in addition to their roles in fostering organic content creation on our platform, they also curate the content published to readers on our platform and lead our third-party content sourcing efforts to ensure that we have the appropriate breadth of content on our platform.

### *Third-Party Content Providers*

To complement the original literary works created by our writers, we source high quality content from other online literary platforms. We also source physical book works for e-book conversion and publication on our platform from several leading offline publishers. We select works suitable for conversion based on commercial value for our platform. Our offering of e-books is especially conducive to attracting readers in older age groups who have stronger interest in traditional literature. To obtain the exclusive e-book publishing rights, including the right to debut the e-book version, we may agree to devote more promotional resources and offer higher royalties to the copyright owners.

As of June 30, 2017, we had sourced and published approximately 273 thousand and 137 thousand third-party sourced works and e-book works on our platform.

### *Content Screening and Monitoring*

We place strong emphasis on content screening and monitoring to ensure that our literary works do not contain any obscene or pornographic content or any information that may jeopardize the quality of our literary works and that the publication and distribution of our literary content fully comply with the applicable laws and regulations. We require our writers to represent that their content is not plagiarized from others before posting it on our platform and we require writers with whom we sign licensing contracts to indemnify us against any violations by the writers of their contractual obligations. Our online content screening and monitoring procedures include both a proprietary, automated screening system as well as a set of manual review procedures conducted by a dedicated team of reviewers, many of whom are also editors on our platform who are familiar with the content. We regularly communicate with the relevant governmental agencies in China to obtain clear guidance on the relevant laws and regulations to ensure compliance. Our content monitoring staff is provided systematic training in the latest compliance know-how, and we closely supervise the screening and monitoring work performed by our staff. In the event of any allegation raised against us in relation to distribution of any pornographic or obscene content, we will immediately launch an internal investigation to verify if the alleged content indeed contains any pornographic or obscene content.

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After the allegation is verified, if the alleged content is from any literary works created by our writers, we will suspend the publication of the involved literary works and ask the writers to amend the content to remove the pornographic or obscene content. We will re-publish the amended literary works only after the pornographic or obscene content is completely removed and the amended literary content has successfully undergone our content screening and monitoring procedures. In severe cases, we will completely remove the entire literary works and will no longer publish them. If the alleged content is made by our readers, we will immediately block or remove the related pornographic or obscene content and, if necessary, prohibit the involved readers from publishing any content in the future.

*Automated Content Screening Process.* All user-generated literary content and comments are first screened by our automated filtering system, which identifies and flags suspicious content for further action based on a regularly updated repository of keywords, according to the latest laws and regulations in China. For the earlier chapters of new literary works, the content that passes the automated content screening process is reviewed by our content monitoring team before it can be published on our platform. The later chapters of such legitimate literary works are then only subject to the first stage automated content screening process prior to publication on our platform. However, such later chapters are still subject to our manual review process, and will be immediately removed if found to be illegal or pirated at a later stage. All flagged content identified by our first stage automated content screening process is reviewed and confirmed by content monitoring staff before it can be published on our platform. Content that has been rejected or removed by our content screening and monitoring procedures are sent back to the writers, which can be re-submitted after revisions are made to our satisfaction.

*Manual Content Monitoring Process.* Content that passes the automated screening process is still subject to manual review by our content monitoring team. As of June 30, 2017, our dedicated content monitoring team had over 100 full-time staff members. Our manual screening procedure is multi-layered, with each piece of content subject to review and cross-review by different monitoring staff. We occasionally engage third-party consultants with specialized understanding of the Chinese content regulatory environment to review certain content, if necessary.

If we discover a user who has violated the user agreement, applicable laws and regulations or infringed any third-party rights, including copyrights, we may terminate such user's account and block such user's future uploads of content to our platform without prior notice. In addition, we promptly remove the relevant content when we are notified or made aware by copyright owners or learn from other sources of copyright infringements by users, such as lists of infringing content that the regulatory authorities publish from time to time. We encourage our users to help us with our content screening and monitoring efforts by offering generous rewards for tips related to potentially illegal, disruptive or pirated content on our platform.

*Self-evaluation as required by the Trial Method.* We are required to comply with the Trial Method on Evaluation of Social Benefits of Online Literature Publication Service Units (網絡文學出版服務單位社會效益評估試行辦法) (the "Trial Method") which took effect on July 1, 2017. As advised by our PRC Legal Advisor, we understand that the Trial Method requires self-evaluation reports to be submitted by online literature publication service providers to the local administrative bodies by the end of January of every calendar year and evaluation of the online literature publication service

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providers by the local government authorities. In accordance with the Trial Method in its current form, we expect to complete such filing by January 2018. The local government authorities will then submit their summaries of evaluation results to the GAPPRFT by the end of March of every calendar year.

However, to the best of our knowledge after consultation with our PRC Legal Advisor, the relevant local government authority has not yet published or launched any implementation measures relating to the Trial Method. We place strong emphasis on operating our business in compliance with the applicable legal and regulatory requirements. We will comply with the relevant implementation measures as and when they become available, and seek legal advice from external legal advisors if the circumstances require so.

Based on the Trial Method in its current form and our understanding of the Trial Method after consultation with our PRC Legal Advisor: (i) we currently have no obligation nor have we received any guidance or instruction from the relevant government authorities to carry out any action for the purpose of complying with the Trial Method; (ii) we do not anticipate that the implementation of the Trial Method will have material impact on our business operations since the Trial Method in its current form only requires enterprises to carry out self-evaluation and file the self-evaluation report with the relevant government authorities; (iii) given that we are one of the leading industry players in the online literature market in China, we consider that we will have the capability to comply with the relevant implementation measures should they become available. For further details of the Trial Method, see the section headed “Regulations — Regulations Relating to Publication — Restriction on Internet Publication” in this document.

### **Intellectual Property Operations**

Our content’s value comes from its suitability to be directly consumed by our readers through our online paid reading services as well as the ability to be sub-licensed as source material for adaptations by our partners into other entertainment formats, such as films, TV and web series, online games, animations and physical books. For our sub-licensing arrangements that involve revenue or profit sharing from adapted entertainment products in the form of online games, our sub-licensing contracts typically provide that our content adaptation partners shall pay us a certain percentage of the total revenue derived from end users of the online games on all distribution channels (as verified by our portals connected with such distribution channels) minus the related distribution costs and relevant taxes. Sometimes our sub-licensing arrangements for films involve revenue or profit sharing from the adapted films, in which cases our sub-licensing contracts typically provide that our content adaptation partners shall pay us a certain percentage of the total box office of the films (as confirmed in writing by the entertainment distribution companies) minus the film production costs and related promotion and publishing costs. We shall typically settle the payables from the sub-licensees on a monthly basis or every three months according to the agreements with content adaptation partners. We sometimes bundle the adaptation rights for various derivative entertainment products adapted from the same literary title and charges the sub-licensee a single fee for such bundled rights.

Our writers rely on us to manage the intellectual property sub-licensing of their content given our scale and relationships with industry leaders in each of films, TV, and game development. In the past, we have worked with film studios such as *Wanda* and *Enlight Media*, TV production companies

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such as *Tencent Penguin Pictures*, *Limon Pictures*, *iQiyi* and *New Classic Media*, and game developers such as *Giant Interactive Group* to create a number of successful adaptations. These adaptations include *Mojin — The Lost Legend* (鬼吹燈之尋龍訣) and *Chronicles of the Ghostly Tribe* (鬼吹燈之九層妖塔) in film, *Fighter of the Destiny* (擇天記) in TV series, animation and online game, *The King's Avatar* (全職高手) in animation, *School Beauty's Personal Bodyguard* (校花的貼身高手) in web series, and *Xing Chen Bian* (星辰變) and *Wo Yu Feng Tian* (我欲封天) in online games.

In some select cases, we may also choose to develop adaptations ourselves. We have developed the PC game, *Ao Shi Jiu Chong Tian* (傲世九重天) as well as the animation, *Dou Po Cang Qiong* (鬥破蒼穹). Additionally, we have begun to develop merchandise based on our popular literary works. For example, we collaborated with *Hobby Max* to produce merchandise for *The King's Avatar* (全職高手) for our online consumers.

Through our intellectual property operations, we sub-licensed 97, 122 and 39 online literary works for adaptation into other forms of entertainment by third-party partners in 2015, 2016, and the six months ended June 30, 2017, respectively, and selectively led the production of a number of animations ourselves. According to the Frost & Sullivan report, among online literature-adapted domestic entertainment products, 13 of the top 20 films by box office, 15 of the top 20 most viewed TV series, 14 of the top 20 most viewed web series, 15 of the top 20 most downloaded online games and 16 of the top 20 most viewed animations, in each case released in China in 2016, were based on literary works developed on our platform. When compiling the data in the preceding sentence, Frost & Sullivan included *jjwxc.net*, an online literature website in which our Company owns a 50% equity interest, as part of our Company.

The proprietary insights into reader feedback discussed previously are as valuable to adaptations as they are for online paid reading. Success on our platform in its written form will serve as early indication of the potential success of a work in its adapted form and our readers are most likely to be amongst the consumers of these adaptations. This provides us incremental visibility into the likely success of our content as adaptations. Based on our assessment of the commercial potential of the content, we take different roles in the sub-licensing process to enhance revenue for us and our writers. For example, we may sub-license the content directly to third parties or take a greater principal role in the process.

### OUR PRODUCTS

Our products include the top mobile and PC products in China's online literature market, ranked by monthly average DAUs in 2016. Our *QQ Reading* app ranked first in terms of monthly average DAUs in 2016 and average daily time spent per active user in the first quarter of 2017 among mobile reading apps in China, in both cases according to the Frost & Sullivan report, while *qidian.com* ranked first in terms of monthly average DAUs in 2016 and average daily time spent per active user in first quarter of 2017 among online literature websites in China. The majority of our active users are on mobile and our mobile products continue to grow faster than our PC products. In the six months ended June 30, 2017, we had 179.3 million mobile average MAUs across our app and WAP products, while PC average MAUs amounted to 12.5 million.

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We have nine major branded products. With the exception of *QQ Reading*, which provides access to high quality content across our products, the rest of our products focus on a specific literary genre respectively and have different reader demographic and writer following. For example, readers and writers of fantasy may choose *chuangshi* while those focused on romance novels may visit *hongxiu*. We also have unbranded white-label products that are available through pre-installation on mobile devices manufactured by leading providers, such as *Huawei*, *Oppo*, *Vivo* and *Lenovo*.

All of our products are available on mobile. Readers typically access our mobile products via a dedicated app or a mobile-optimized WAP interface that is largely similar in terms of functionality and appearance to our mobile apps. Our mobile apps are available for user download from the Apple and Android app stores. We also provide a PC website version for all of our branded products except *QQ Reading*, which is a mobile-only app.

The below table provides a detailed overview of our major branded literary products:

### *Self-owned Branded Literary Products*

| Name                                     | Format(s)                      | Highlights   |
|--|--------------------------------|--|
| <i>QQ Reading</i><br>(QQ閱讀).....         | Mobile app                     | <ul style="list-style-type: none"> <li>one-stop shop for high quality content across our products</li> </ul>   |
| <i>qidian.com</i><br>(起點中文網) .....       | Mobile app, WAP<br>and website | <ul style="list-style-type: none"> <li>primarily attracts male readers of all age groups</li> <li>all-around leader across all major online literature genres, and especially well-known for fantasy, cosmopolitan, <i>xianxia</i> and history novels</li> <li>exemplary works include <i>The Grave Robbers' Chronicles</i> (盜墓筆記), <i>Battle Through the Heaven</i> (鬥破蒼穹) and <i>The King's Avatar</i> (全職高手)</li> </ul> |
| <i>qdm.com</i><br>(起點女生網) .....          | Mobile app, WAP<br>and website | <ul style="list-style-type: none"> <li>a sister website to <i>qidian.com</i> focused on female readers</li> <li>well-known for antiquity and fantasy romance novels</li> <li>exemplary works include <i>Feng Qiu Huang</i> (鳳囚凰)</li> </ul>  |
| <i>chuangshi.qq.com</i><br>(創世中文網) ..... | WAP and website                | <ul style="list-style-type: none"> <li>focuses on content offering that is most appealing to young male readers</li> <li>well-known for cosmopolitan and fantasy genres</li> <li>exemplary works include <i>Fighter of the Destiny</i> (擇天記)</li> </ul>  |
| <i>yunqi.qq.com</i><br>(雲起書院) .....      | WAP and website                | <ul style="list-style-type: none"> <li>caters to female readers of all age groups</li> <li>well-known for contemporary romance, fantasy romance and antiquity romance novels</li> <li>exemplary works include <i>Guo Min Lao Gong Dai Hui Jia</i> (國民老公帶回家)</li> </ul>   |



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| Name                               | Format(s)                   | Highlights  |
|------------------------------------|-----------------------------|---|
| <i>xxsy.net</i> (瀟湘書院)..           | Mobile app, WAP and website | <ul style="list-style-type: none"> <li>focuses on antiquity romance novels</li> <li>exemplary works include <i>Huang Quan</i> (凰權) and <i>Te Gong Huang Fei Chu Qiao Zhuan</i> (特工皇妃楚喬傳)</li> </ul>   |
| <i>hongxiu.com</i> (紅袖添香) .....    | Mobile app, WAP and website | <ul style="list-style-type: none"> <li>primarily attracts white-collar female readers</li> <li>well-known for contemporary romance and family genres</li> <li>exemplary works include <i>Lu Cong Jin Ye Bai</i> (路從今夜白)</li> </ul>                      |
| <i>readnovel.com</i> (小說閱讀網) ..... | Mobile app, WAP and website | <ul style="list-style-type: none"> <li>primarily attracts campus female readers</li> <li>well-known for literary works concerning campus life and contemporary romance</li> <li>exemplary works include <i>Ni Hao Xiao Fang Yuan</i> (你好消防員)</li> </ul> |
| <i>xs8.cn</i> (言情小說吧)              | Mobile app, WAP and website | <ul style="list-style-type: none"> <li>primarily attracts young female readers</li> <li>well-known for contemporary romance novels</li> <li>exemplary works include <i>Qi Nian Gu Chu Ru Bei</i> (七年顧初如北)</li> </ul>                                    |

All of our products are easy-to-use with intuitive user interfaces. The following are screenshots of our mobile app, WAP and PC website interfaces.



Our products are feature-rich and provide our readers with a comprehensive, enjoyable and unique experiences. While a number of our features are available to all readers who access our

products, certain functionalities, such as the ability to save literary works to a personal bookshelf or bookmarking works, require readers to register and sign in on our products. We also allow readers to sign in with their credentials from other popular Internet platforms such as *Weibo*, *Weixin* and *QQ*.

The functions and features on our products can be grouped into four major categories: reading, content search and discovery, content curation and recommendation and social and community. Below is an overview of these functionalities.

### Product Functionalities

#### Reading

Our reading interface is simple and intuitive. Readers can easily adjust the page orientation, line spacing, font size, background color, and reading mode (night or day), and may download certain chapters for offline reading. Our mobile apps and WAP interfaces are optimized for mobile device. Readers on our mobile apps can also copy, annotate, and share passages, as well as look up words and phrases in an online dictionary.

Below are sample screenshots of a typical reading window, including its various features.



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If a reader is registered and logged in, he can add works to a personalized bookshelf, share and recommend works to friends, as well as sync works to the cloud. He can also download certain chapters for reading offline.



### *Content Search and Discovery*

Our works are categorized and tagged based on keywords that allow our readers to easily search for a specific work. We also help readers discover works sorted by rating, genre, character count, search popularity, date of latest update, and status of completion.



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The following are screenshots of sample content search windows.



The following are screenshots of sample content discovery functions.



*Curation and Recommendation*

We curate and recommend content to our readers using automated algorithms based on proprietary analytics as well as the judgment of our editors. The level of curation and recommendation for a reader depends on the amount of data available on that reader's reading habits and preferences, including works read in the past as well as search and browsing history on our products. We are only able to collect user data and apply our customized content recommendation system on our platform and our self-operated channels on Tencent products.



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On our mobile apps, we infer the *reading genes*, or content preferences, for our readers by analyzing their past reading and browsing behaviors. Users can also set and adjust their reading preferences. We then curate relevant works that best match their *reading genes*.



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As readers search for content, we also provide curated and recommended works based on readers' past reading history and works liked by other readers with similar preferences.



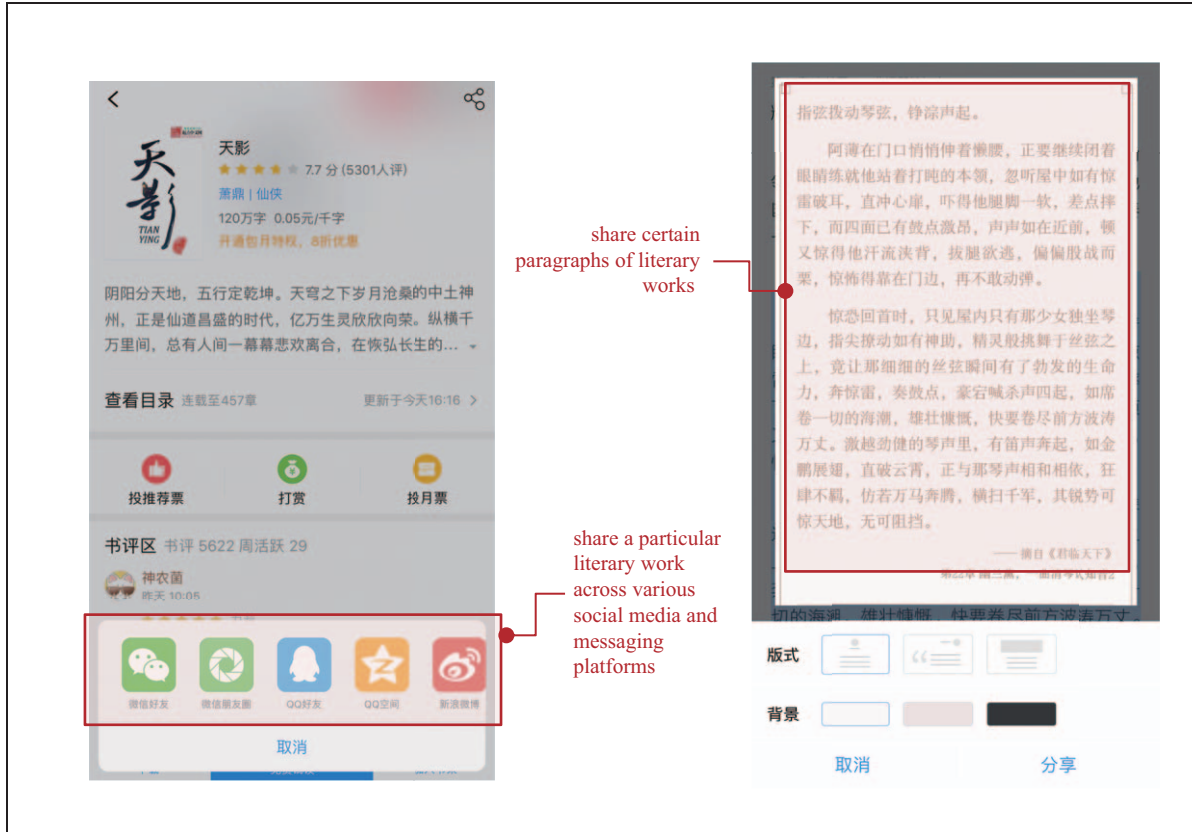
### Social and Community

The reading experience on our platform is highly engaging due to the serial nature of much of our content. We provide tools that enable social interaction amongst our community of readers and writers across our products to further reinforce the engagement on our platform. These interactions help strengthen our community by acting as a direct reader and writer acquisition and engagement tool. These interactions also generate data on reader preferences and behavior that can help our writers improve the quality of their content.

- **Sharing.** Our readers can conveniently share a range of information such as profiles of literary works, specific book passages, writer information, user profile, and user comments and reactions through some of the most popular social media and messaging platforms in China such as *Weibo*, *Weixin*, *QQ*, etc. Our readers can also directly log in to our platform with user accounts of these platforms. Once a user registers on one of our products, their accounts can be used to log into our other products. This not only increases user engagement but is also potentially an effective marketing and user acquisition tool for both our content as well as our platform.

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On the book summary window, readers can share the profile of a particular work on various social media and messaging platforms; within the reading window, readers can share specific passages and chapters with their friends.



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- *Comment and rate.* Readers use our feedback tools to share their views with their favorite writers and other readers. Our comment posting feature allows readers to post their reactions and thoughts while our rating system allows works to be rated. Readers may also interact with others through features such as the *Like* button whereby they can react to comments left by others. Readers are recognized for the frequency and quality of their comments.





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- *Rankings and Rewards.* For literary works, our mobile apps publicly feature fan rankings daily, weekly and monthly, based on the overall amount of monthly tickets, reading time, click-through rates, rewards and comments received, etc. Works with higher fan rewards and contributions are ranked higher on the relevant list. Hence, writers would be motivated to create more quality content in order to be ranked higher.





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- Q&A. The Q&A function on our mobile apps enables readers to seek answers from their favorite writers. We invite leading writers across a wide range of genres to address questions from their fans. Through this type of Q&A, readers can post specific questions for writers to respond by offering the writers a certain amount of incentive in the form of virtual items.

The screenshot shows a mobile app interface for a Q&A function. On the left, the author's profile for '苏小暖' (Su Xiaonuan) is displayed, including her bio, total words (963万), and genre (古言). Below this, a question is posted: '算了不纠结那王结不结束的问题了,小暖新书会不会写实体书啊?然后销售出去,我想买。。。' (Forget the problem of whether King Wang will end or not, Xiaonuan's new book, will you write a physical book? Then sell it, I want to buy...). The question is priced at 1 red dot. A red box highlights the question and the '8阅读悄悄听' (8 reading悄悄听) audio option. A red arrow points from this box to the text 'raise questions and seek answers in audio format using virtual items'. On the right, the Q&A process is shown. It starts with a request to support the author's new book '《大神引入怀》'. A text box prompts the user to '输入问题, 等作者语音回答; 超过48小时未回答, 将全额退款到账户 (不少于10字, 最多60字)'. Below this, a payment section shows '需支付: 100 书币' (Need to pay: 100 book coins) and a red box around the '我要加价' (I want to add price) button. A red arrow points from this box to the text 'increase amount of virtual item rewards to get more timely responses'. The bottom part of the right side shows a list of questions, including one about '叶子-如果王者荣耀和《大神引入怀》同时掉在河里, 叶子救哪个?' (Yezi - If Honor of Kings and 'The Great God Enters My Arms' fall into the river, which Yezi saves?).

raise questions and seek answers in audio format using virtual items

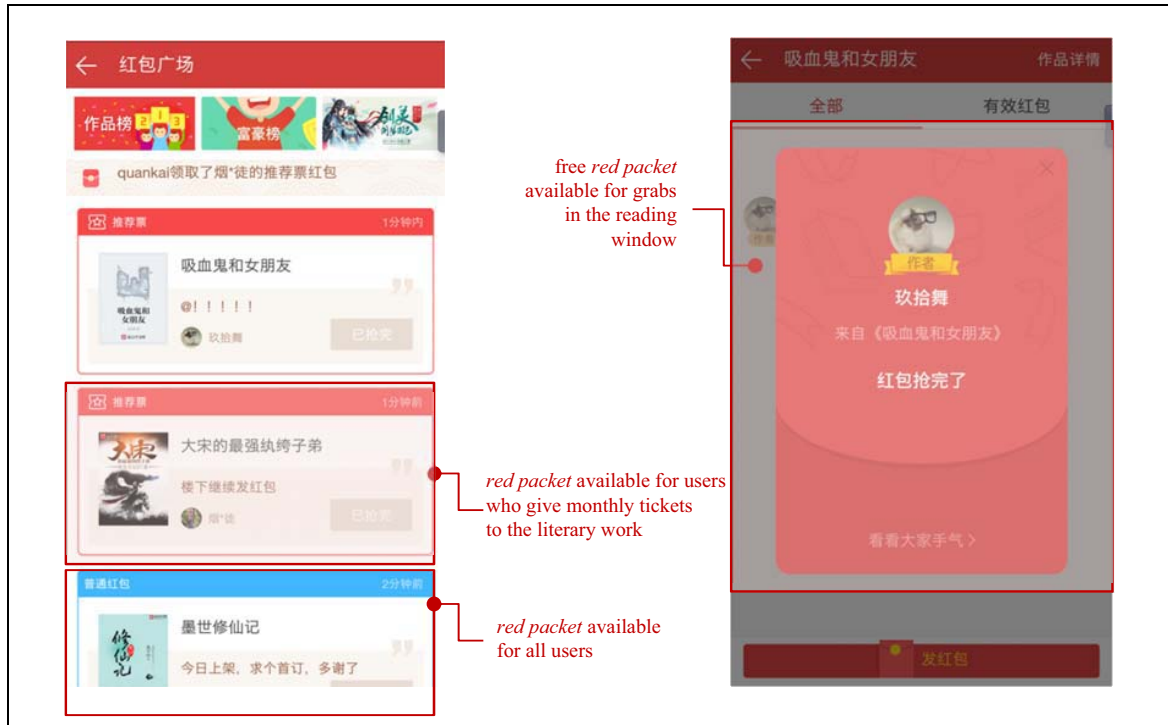
increase amount of virtual item rewards to get more timely responses

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- *Red Packets.* We recently introduced the *Red Packet* function which allows readers to send *book credits* to their favorite writers and vice versa to show appreciation. Complimentary *red packets* are also available while reading literary works and on our *Red Packet Square* page.



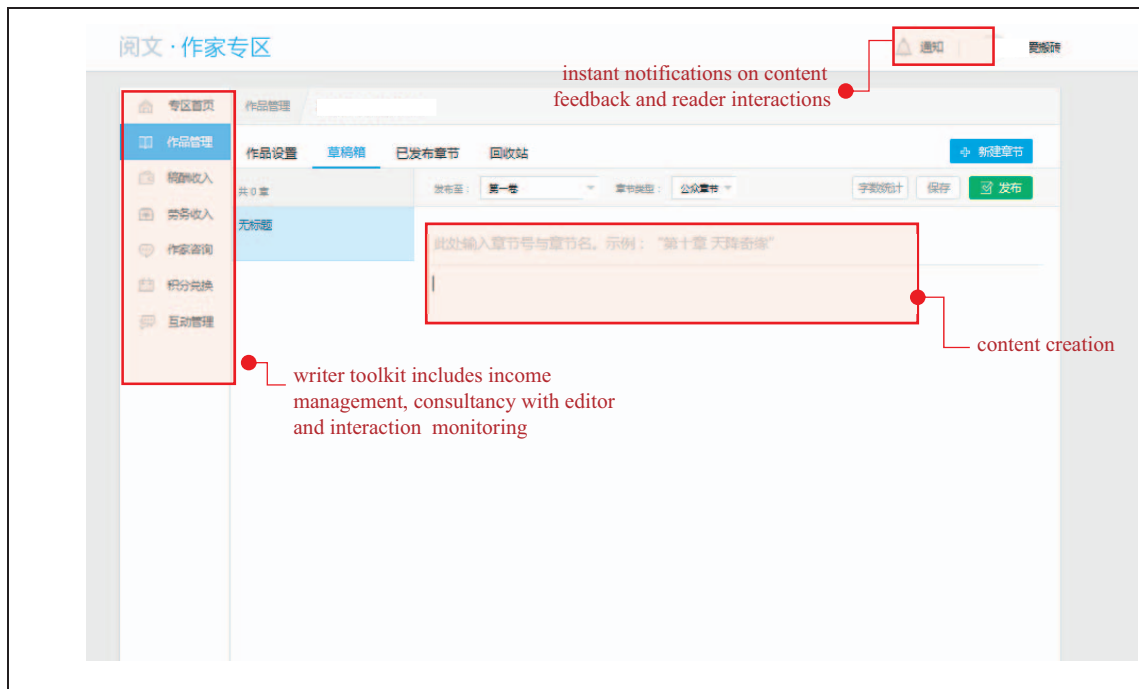
In June 2017, over 40% of *QQ Reading's* MAUs have engaged in active interactions with our writers and readers using our interactive features.

### *Writer Tools and Aids*

We provide dedicated PC website and mobile tools to aid writers, such as our user-friendly *Writer Helper* PC website and mobile app. *Writer Helper* provides one-stop services for content creation, distribution and reader interaction, as well as for reader feedback and writer profile management across our entire platform. We offer *Writer Helper* for free to our writers.

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The screenshot below illustrates the key features of *Writer Helper* PC website.



The screenshots below illustrate the key features of *Writer Helper* app.





## DISTRIBUTION PLATFORMS

We operate a multi-layered content distribution network and distribute our content directly to readers through our products and our self-operated channels on Tencent's distribution platforms, notably those on Tencent products. In the six months ended June 30, 2017, the average DAUs, calculated as the average of monthly average DAUs for each calendar month, and the average MAUs of our platform and our self-operated channels on Tencent products reached 36.6 million and 191.8 million, respectively. We also provide our content to third-party partners for distribution on their platforms.

### *Our Products*

In the six months ended June 30, 2017, we had 88.3 million average MAUs on our products, of which 75.8 million were on mobile.

### *Our Self-operated Channels on Tencent Products*

Our shareholder and strategic partner, Tencent, is one of the largest Internet and media platforms in the world. We are uniquely positioned with access to a host of popular Tencent products reaching hundreds of millions of Chinese online readers on a daily basis. We are the literary content provider for a number of widely-used Tencent mobile apps, including both its social network platforms as well as news and Internet browser apps. In addition to content, we generally make our reading tools and functionalities available to readers who access our self-operated channels on Tencent products. Users of the relevant Tencent products can pay to consume the literary content that we provide directly through such Tencent products.

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We own all the user data generated from our own platform, and we have access, without ownership, to related data generated from our self-operated channels on Tencent products. While Tencent provides us with access to its users through its products, we are principally responsible for the actual operations and provision of the core services to the readers for the aforementioned self-operated channels on Tencent's products. Our back-end technology platform is connected with the back-end technology platforms of the relevant self-operated channels. This connection allows us to have real time access to user behavior data generated from users' activities and content consumption on these self-operated channels. As our back-end technology platform and the relevant self-operated channels are connected, we directly control the manner in which content is visually displayed and categorized to a reader. We design the content curation and recommendation algorithms for our self-operated channels, and we actively manage the content curation process with our own technological infrastructure. Tencent provides certain ancillary services to the self-operated channels that are not directly related to literary content, including IT maintenance, payment support, promotion and customer service.

For details of our content distribution contracts with Tencent, see the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions" in this document. In the six months ended June 30, 2017, the average MAUs of our self-operated channels on Tencent products was 103.5 million, all of whom were mobile MAUs.

*Mobile QQ.* *Mobile QQ* is one of the most widely used mobile communication apps in China. In the functions tab of *Mobile QQ*, we are the exclusive provider of content to the *Reading* channel. The *Mobile QQ* Reading channel provides for a similar set of functionalities as *QQ Reading*. In addition to the tools available in *QQ Reading*, the *Reading* channel of *Mobile QQ* provides for enhanced social networking functionalities, such as rankings that feature the activity level of friends on *Mobile QQ*.

*QQ Browser.* *QQ Browser* is the leading mobile browser in China in terms of monthly active users, as ranked by the Frost & Sullivan report. *QQ Browser* features a navigation bar in the center of the interface, and we exclusively supply the content to the *Novels* channel located in the navigation bar.

*Tencent News.* *Tencent News* is the leading Internet news media platform in China in terms of user penetration, as ranked by the Frost & Sullivan report. The main content display interface of *Tencent News* is organized into interest-based, location-based, and media format-based channels. Among the interest-based channels is the *Reading* channel, for which we are the exclusive supplier of content. Readers of *Tencent News* can customize their main content display interface and add *Reading* to the default tabs. The *Reading* channel features separate pages for *Bookshelf*, *Library* and search tools.

*Weixin Reading.* *Weixin Reading* is an online literature mobile app that draws upon the social networking power of *Weixin*, which is the leading social network and mobile communication app in China. *Weixin Reading* is an online literary content distributor and does not own any online literary works, and therefore does not compete with us. We are the exclusive content provider to *Weixin Reading*. A key feature of *Weixin Reading* is that readers can closely follow the reading activities and content posted by their friends from *Weixin*. *Weixin Reading* has built in enhanced social network tools such as private messaging and book gifting to drive community engagement.

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Tencent has provided and will continue to provide certain services to us, including the provision of advertisement solicitation services, promotion services, payment services, cloud services and other technical service. During the Track Record Period, we were a member of an advertisement solicitation system operated by Tencent, which provided various types of advertisement solicitation services using data processing algorithms to control associated costs. Based on our agreement with Tencent, we were entitled to designate the relevant specifications and materials to produce the solicited advertisements. Accordingly, we paid the service fees to Tencent in advance, the amount of which was determined, at our discretion, on a cost-per-click (CPC) or cost-per-time (CPT) basis. With respect to Tencent's promotion services to us, we were able to launch, promote and sell our products and services on certain platforms, including the self-owned platforms of Tencent and/or its affiliates and other third-party platforms on which Tencent was authorized to operate or conduct relevant promotion activities. Similarly, Tencent charged us service fees on the basis of CPC, CPT or cost-per-download (CPD).

In addition, pursuant to our agreements with Tencent with regard to its payment services, readers were allowed to make online payment for our literary content or services through Tencent's individual payment channels on both mobile and PC or directly on Tencent's payment interface embedded on certain of our mobile apps and websites agreed by Tencent. Tencent charged us service fees based on a percentage of the total amount of payment made by readers through Tencent's payment channels or interface.

Tencent also serves as an independent service provider in providing cloud-based information storage space and related technical support services for the various cloud-based systems needed by our products and services, and has not been involved in any development or operations of our products and services or is entitled to edit or change any code or data of ours. We pay Tencent the service fees for its cloud services and other technical services on a monthly basis in the amount equivalent to the costs incurred by Tencent in providing those services plus a percentage of the costs. Furthermore, during the Track Record Period, we purchased virtual currencies from Tencent through Tencent's online system and used Tencent's virtual currencies to market and promote our products and services. For example, we offered limited-time-only prizes in the form of such virtual currencies to certain new users of our platform to promote user engagement. We were prohibited from selling the virtual currency to any other online game companies or Internet companies or using the virtual currency to carry out any promotion activities we planned without the prior approval from Tencent.

With respect to user data we collect from our own platform and the user data generated from our self-operated channels on Tencent products, we utilize such data for the purpose of our business operation. For example, we analyze the behaviors and profiles of individual users based on user data collected, and we accordingly recommend different literary content to them to create a personalized reading experience. We utilize user data for our internal business purposes and we currently do not have plans to sell or market such data to third parties.

### *Third-party Distribution Channels*

Readers have access to our content through third-party platforms. We have established content distribution partnerships with leading Internet and telecommunication companies in China. Our major third-party distribution partners include *Baidu*, *Sogou*, *JD.com* and *Xiaomi Duokan*. These third-party distribution channels complement our platform and self-operated channels, extending our user reach.

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Pursuant to our distribution agreements with third-party distribution channels, they are required to display to their readers the source of the content that we provide and the relevant logo of our mobile app or platform. Our literary content is typically displayed on the dedicated online literature channels of our distribution partners' online platforms. The terms of our distribution agreements with third-party distribution channels typically range between one and three years. We generally enter into longer term content distribution contracts with larger third-party online literature platforms that can provide greater reader access. In addition to providing content, we also provide the software development kit for mobile app development to certain smaller third-party distribution partners. We have a dedicated team to monitor our third-party distribution platforms on an on-going basis. If we discover any content displayed on their platforms or any conduct of our third-party distribution platforms violates our agreed arrangements, we will notify the involved third-party distribution partner and require it to immediately remove the inappropriate content and correct its misconduct. In addition, we will have periodic meetings with our third-party distribution partners. During the meetings, we will convey to each other any issues or concerns we may encounter in relation to the distribution of our literary content on our partners' platforms in order to ensure that the performance of our third-party distribution partners are in compliance with our contractual arrangements.

Readers on our third-party distribution partners' platforms pay such partners directly in order to access premium literary content. Our partners then share a portion of such online reading revenues with us pursuant to our distribution agreements. During the Track Record Period, the range of such revenue sharing was between 20% and 60% of the online reading revenues received by the third-party distribution partners. Our third-party content distribution partners typically settle payment with us on a monthly basis or every three months.

### **Our Monetization Opportunities**

#### ***Online Reading***

Our primary business is paid online reading. We operate a freemium model for our content on our products as well as on self-operated channels on Tencent products. Typically, we offer the beginning chapters of a literary work for free and then charge RMB5 cents per 1,000 Chinese characters for the rest of the work. We believe the free content attracts readers and encourages them to visit and explore our content library. The ability to pay for only the parts of the work that a reader consumes eliminate a reader's concern that he may not read the whole book, particularly given the length of some of our works. We also offer monthly subscription packages for approximately between RMB10 to RMB18 per month; these packages allow readers unlimited access to a specific sub-set of our content offerings and provides them with a discount of 20% on purchase of other premium content. We also provide discounts for purchases of pre-bundled packages. Furthermore, we provide other value added services such as the aforementioned social interactive features such as *Rewards* and *Red Packets*. Registered readers may pay using credits paid for through a variety of Tencent payment options, *Alipay*, *UnionPay*, electronic bank transfer or mobile top-up cards. We pay payment service commissions to our online payment service providers, which are typically calculated as a percentage of the transaction monetary volume handled by such providers. We have increased our usage of the payment channels of Tencent primarily because of the increasing market popularity and the continued improvement in the service quality of Tencent's payment channels.



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The following table summarizes our key operating metrics during the Track Record Period.

|  | For the year ended December 31, |                  |                  | For the six months<br>ended June 30, |                  |
|--|---------------------------------|------------------|------------------|--------------------------------------|------------------|
|  | 2014 <sup>(1)</sup>             | 2015             | 2016             | 2016                                 | 2017             |
| Average MAUs on our platform and self-operated channels (average of MAUs for each calendar month) .... | N/A                             | 117.1<br>million | 169.9<br>million | 157.0<br>million                     | 191.8<br>million |
| Average MPUs on our platform and self-operated channels (average of MPUs for each calendar month) .... | N/A                             | 3.8<br>million   | 8.3<br>million   | 6.8<br>million                       | 11.5<br>million  |
| Paying ratio <sup>(2)</sup> .....  | N/A                             | 3.3%             | 4.9%             | 4.4%                                 | 6.0%             |
| Online reading revenue per MPU <sup>(3)</sup> .....  | N/A                             | RMB205.6         | RMB208.5         | RMB90.6                              | RMB122.8         |

*Note:*

- (1) Our operating data for 2014 does not include the operating data of Clouduary, which used a different methodology to track its operating data and is impractical to conform with those of ours. Therefore, we believe it is inappropriate and potentially distorting to disclose key operating data for 2014 as it does not facilitate investors' understanding of our business performance.
- (2) Paying ratio equals average MPU divided by average MAU for a certain period of time.
- (3) Online reading revenue on our platform and self-operated channels divided by average MPUs.

The increase in average online reading revenue per MPU between 2015 and 2016 and between the six months ended June 30, 2016 and 2017 is primarily attributable to the improvement of our content quality, the expansion of our genre scope and the enhancement of our user-friendly online functionalities. We will continue to adopt this approach to attract users. We will seek to increase our conversion ratio for paying users and average revenue per user through better content offerings and enhanced user experience. With the successful execution of such approach, and our increasing emphasis on mobile platform, we believe we are able to solidify our leadership position in the online literature industry and our paying ratio will continue to increase along with the expected growth of paying ratio across China's online reading industry. According to Frost & Sullivan, the paying ratio of online literature (in terms of the monthly average of the sum of paying users across all online literature platforms in China as a percentage of the total active users on such platforms during a period) is expected to increase from 4.1% in 2016 to 8.3% in 2020. The paying ratios of similar industries such as online video, online games and online music in 2016 (in terms of the monthly average of the sum of paying users across all platforms of a specified industry in China as a percentage of the total active users on such platforms in 2016) were 8.1%, 13.6% and 4.0%, respectively. For details on our specific strategies, see the section headed "Business — Our Strategies" in this document. *QQ Reading* and *qidian.com* are our most important products. For *QQ Reading*, among its paying users in 2015, 52.6% were also paying users in 2016, and 27.9% were also paying users in the

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first half of 2017. Among *QQ Reading*'s paying users in 2016, 37.9% were also paying users in the first half of 2017. For *qidian.com*, among its paying users in 2015, 44.9% were also paying users in 2016, and 35.5% were also paying users in the first half of 2017. Among *qidian.com*'s paying users in 2016, 42.9% were also paying users in the first half of 2017.

### ***Intellectual Property Operations***

Intellectual property operations, where we intermediate the adaptation of our content into other entertainment products, represent an important and growing revenue stream. Our financial and operational involvement in subsequent adaptations of our content varies based on our assessment of potential commercial returns and overall value to our brand reputation. Based on such assessment, we typically either receive a fixed licensing fee upfront or a combination of a fixed licensing fee and revenue or profit sharing from the end entertainment products, such as box office receipts, TV distribution profits and online game revenues. We may also enter into co-investment or co-development arrangements with content adaptation partners to capture more upside from our intellectual property development.

### ***Physical Books***

We produce a sub-set of our online literary works offline in physical book formats. We operate two leading private physical book companies in China.

- Tianjin Huawen Tianxia Book that is focused on producing books based on content in the public domain, including a selection of classics, original and children materials; and
- Tianjin Zhongzhi Bowen Book that is focused on producing physical books based on content in the public domain, including a selection of classics, social sciences and lifestyle materials.

Both affiliates are licensed with copyrights to content published on our online platform.

### ***Other Businesses***

Leveraging our large and highly engaged user base, we monetize our internet traffic with our online game operations. We publish games on our platform, including our mobile apps and our websites. Under a joint operating arrangement, we jointly operate games with game developers and publishers without paying license fees or incurring significant promotional expenses. We share user payments with game developers. In addition to online game publishing, we also develop our own online games adapted from popular literary titles on our platform. We outsource the production for our online games to third-party contractors. We share a portion of the user payments with the third-party production companies.

We provide online advertising services whereby we allow advertisers to place advertisements on particular areas of our websites. Arrangements with advertising agencies, as the intermediaries, are

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structured to permit discretions over the use and sale of the advertising capacity to end advertisers. We also generate advertising revenues from pay for-click services which enable advertisers' promotional links to be displayed on particular areas of our platform where the links are relevant to the subject and content of such areas.

We offer audio-books for our readers through the *lrts.me* website and mobile app, whereby readers can pay to listen to our premium audio-book content.

### INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. Under the relevant licensing agreements, we purchase on an exclusive basis the copyright of the content published on our platform either at fixed prices or pursuant to revenue-sharing arrangements, under which the writer receives royalties based on sales and other forms of monetization of the writer's work. Revenue-sharing is the main method through which we license copyrighted content from our writers, as we believe this provides greater incentive for continued creative effort. For literary works with significant commercial potential, we tend to license their copyright at fixed prices in order to maximize our monetary return. The scope of our license from the writers typically covers general copyrights, including subsidiary rights, which allows us to sub-license the copyrighted content to our content adaptation partners for adaptation into other media formats. We license specific copyrights from the respective writers in less popular literary works, pursuant to which we have rights to publish or monetize such content in a designated way. The term of our copyright license from writers is typically for 20 years or longer. We do not own copyright to any content posted on our platform by entry-level writers with whom we have not entered into licensing contracts.



In terms of adaptation, our license agreements with content adaptation partners allow them to produce adapted works in a specific manner based on our literary content for a fixed period of time, which typically ranges between two to ten years. For films and TV or web series, the licensing agreements generally stipulate the deadline for the commencement of shooting. In terms of online games, the agreements typically provide for the deadline for beta testing. After the expiration of the license term, the agreements typically provide that the licensees can no longer make further adaptations based on our copyrighted materials, or further operate the existing adapted works.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of the Latest Practicable Date: (i) we had registered three patents and applied for an additional six patents with the State Intellectual Property Office of the PRC, registered or applied for a total of 2,880 trademarks with the SAIC, registered eight works of art with the National Copyright Administration of the PRC, and registered nine major domain names, including, among others, *qidian.com* and *chuangshi.com*; and (ii) had entered into agreements with the Retained Tencent Group in relation to the transfer of three patent application rights (one of the subject applications had expired as of the Latest Practicable Date) in the PRC (which we do not consider to be material to our business) to us. Such transfer was in the process of being completed as of the Latest Practicable Date, and as advised by our PRC Legal Advisor, there is no legal obstacle for completing the aforesaid transfer. We will obtain a non-exclusive, perpetual, worldwide and royalty-free license from our shareholder and strategic partner Tencent to use a host of its intellectual property rights, including “QQ阅读” trademark. As advised by Tencent, the “QQ” element of the

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“QQ阅读” trademark is associated with several of the most successful products ever launched by Tencent and therefore is one of the most important intellectual properties owned by the Retained Tencent Group. In accordance with the IP License Framework Agreement referred to in the section headed “Connected Transactions” in this document, we will have the right to use the trademark on a royalty-free basis for a perpetual term. We believe that the licensing arrangement does not in anyway inhibit our operations. See the section headed “Relationship with our Controlling Shareholders” in this document for details. Save for the trademarks “QQ阅读”, “” and “” as disclosed in the section headed “Statutory and General Information — B. Further Information About Our Business — 2. Intellectual Property Rights — (a) Trademarks — (v) Trademarks licensed by Tencent” in Appendix IV of this document, all intellectual property rights that were owned by the Retained Tencent Group and material to our operations have already been transferred to us. We require our employees to sign an employment agreement which prohibits the unauthorized disclosure of our trade secrets, confidential information and proprietary technologies subject to the terms and conditions of the employment agreement, and we also require our employees to assign to us any invention related to our business that they develop during the course of employment.

We devote significant efforts to the promotion of intellectual property awareness in China as well as the protection of our rights through legal campaigns. We are the driving force behind the *Copyright League* campaign in China, which is an industry-wide effort to promote the legal consumption of copyrighted materials among Chinese consumers. We have also initiated a number of significant legal challenges in Chinese courts against large Internet platforms that have harbored large quantities of pirated materials, in many cases resulting in success.

## SALES AND MARKETING

For user acquisition, we establish cooperative relationships with content distribution partners and content adaptation partners primarily through the efforts of our business development team. Our business development personnel maintain regular contact with our existing and potential partners to better understand their needs. Our business development team also explores new sales opportunities through other channels including industry forums and sales visits. We believe that our community base has grown primarily through word-of-mouth referrals by virtue of the popularity of our literary content. Our market position benefits significantly from our large user base and our strong brand recognition throughout China. We market our platform and services mainly through popular search engines, web navigation portals, and mobile app stores.

For brand image building, we employ a variety of traditional and Internet promotional activities to build our brand as part of our overall marketing strategy. We focus on building awareness for our *Yue Wen* and *QQ Reading* brands. For example, we co-organize regular large-scale campaigns with popular media outlets including *Hunan TV* and *Forbes Magazine* to raise our brand awareness. We jointly launched the *China Original Literature Billboard Awards* with *Forbes Magazine*, which has become the authoritative ranking of original online literature in China. In tier-one Chinese cities, we primarily deploy brand advertisements in subway stations, which witness tremendous amount of foot-traffic on a daily basis. For small cities in China, our promotional efforts are focused on brand advertisements placed on Internet TV platforms and social media campaigns. Furthermore, we also leverage offline promotional events of our popular writers to raise our brand awareness.

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### TECHNOLOGY

#### Automated Content Recommendation Algorithm

A key component of our user-centric strategy is our automated recommendation algorithm which we have developed and continually enhance. Our sophisticated big data analytics capabilities enable us to study the behaviors and profiles of individual users. We have a dedicated data analytics team of engineers within our technology department. We can utilize such user intelligence data to predict content that the user may have an interest in, associate and understand the relationship of content from different writers, and facilitate interactions among readers and various elements on our platform. In order to distribute our literary content in a manner that creates a personalized reading experience for our users, we invite our users to set and adjust their reading preferences through their registered accounts. As user's reading behavior increases, our recommendation becomes more focused and accurate. The level of curation and recommendation for a reader depends on the amount of data available on that reader's reading habits and preferences, including works read in the past as well as search and browsing history on our products. Through our automated recommendation algorithm, we can better curate content to attract users. Given the limited screen size of smart mobile devices, our automated content recommendation algorithm is increasingly crucial to creating a user-friendly reading environment and the success of our literary platform.

### INFRASTRUCTURE

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the reliability of our operations as well as the security of information on our platform. We continue to develop our platform to offer readers an effortless and seamless reading experience, and at the same time to enhance its reliability and scalability.

Our research and development efforts primarily focus on improving the user-friendliness of our existing product offerings and designing new products for our users. Our research and development expenses primarily comprise employee benefits expenses of our research and development personnel. We incurred RMB23.2 million, RMB112.6 million, RMB187.0 million and RMB130.0 million in research and development expenses in 2014, 2015, 2016 and the first half of 2017, respectively.

#### Cloud Services

We have contracted with Tencent Cloud for the use of its cloud services, including its computing, storage, server and bandwidth offerings. The current cloud service agreement operates on an annual auto-renewal basis, unless terminated by either us or Tencent Cloud within a certain period prior to the renewable date. The next renewal date is May 31, 2018.

#### Stability

Our systems infrastructure is hosted in three redundant Tencent Cloud centers in three separate cities in China. We have multiple layers of redundancy to ensure the reliability of our network. We also have a working data redundancy model with comprehensive backups of our databases and our development environment conducted every day.

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### Data Security

Our network configuration is secured at multiple layers to isolate our databases from unauthorized access and we use sophisticated security protocols for communication amongst our mobile apps and websites. To prevent unauthorized access to our system, we utilize a system of firewalls and also maintain a perimeter network to separate our external-facing services from our internal systems.

We back-up our writer and user data on a daily basis in separate and various secured data back-up systems to minimize the risk of user data loss or leakage. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. We have also implemented procedures such as regular system check, password policy, user authorization review and approval and data back-up, as well as data recovery test, to safeguard our information assets and ensure the proper management of our operational data.

### COMPETITION

We compete primarily with other online literature websites and mobile apps in China, such as *Zong Heng* and *iReader*, for best-selling writers, readers, editors as well as sub-licensing opportunities. We compete primarily on the basis of the breadth and quality of literary content offered, and editorial and promotional services provided to writers. We also compete for Internet users' reading time with content providers that focus exclusively on a specific genre of content featured by us as well, including popular We Media (自媒體) accounts that focus on short articles related to literature, history, anime or other genres that our library covers.

For the physical books business, we compete mainly with publishing companies in China. We compete with these companies for writers, readers and sales channels.

Our competitors may compete with us in a variety of ways, including obtaining exclusive online, digital or offline distribution rights for popular literary content, attracting writers with more favorable contractual terms, conducting brand promotions and other marketing activities, adopting more aggressive pricing policies, both in terms of content reading and sub-licensing to content adaptation partners, and making acquisitions. We experience significant competition for highly skilled personnel, including management, editors, engineers, designers and product managers. Our growth depends in part on our ability to retain our existing personnel and add additional highly skilled employees.

### CUSTOMERS

Our customers primarily include readers on our products and self-operated channels, as well as Internet readers who access our content through third-party distribution channels, who purchase our premium content or virtual items. To a lesser extent, our customers include content adaptation partners who license our intellectual property for adaptations, purchasers of our physical books and adjacent merchandise, our online game readers and our advertising customers.

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We have a broad base of customers, and we do not believe we have customer concentration risks. Our top five customers accounted for less than 30% of our total revenues for each of the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017.

### SUPPLIERS

Our suppliers primarily include writers who create content on our platform or from whom we otherwise source materials for publication. To a lesser extent, our suppliers also include (i) content distribution partners, (ii) printers and binderies that produce physical books, (iii) delivery companies that ship and deliver the physical books, (iv) bandwidth and server custody providers, (v) online game production companies to whom we outsource the production of online games, and (vi) online animation production companies to whom we outsource the production of animated works. Our top five suppliers accounted for less than 30% of our purchases for each of the years ended December 31, 2014, 2015, 2016 and for the six months ended June 30, 2017.

### EMPLOYEES

As of June 30, 2017, we had 1,490 full-time employees, all of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Shenzhen and various other cities in China. The following table sets forth the number of our employees by function as of June 30, 2017:

| <b>Function</b>                                 | <b>Number of<br/>Employees</b> | <b>% of Total</b> |
|---|--------------------------------|-------------------|
| Editors .....                                   | 340                            | 22.8              |
| Platform operation and customer service .....   | 330                            | 22.2              |
| Technology .....                                | 340                            | 22.8              |
| Management, finance and administration .....    | 300                            | 20.1              |
| Sales, business development and marketing ..... | 180                            | 12.1              |
| <b>Total</b> .....                              | <u>1,490</u>                   | <u>100.0</u>      |

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our retention strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives.

We primarily recruit our employees through conversion of experienced writers into our editors, recruitment agencies and online channels including social networking platforms. We have adopted a training program, pursuant to which employees regularly receive training from management, technology, regulatory and other internal speakers or external consultants. All our employees are eligible to attend certain trainings and they may also attend external trainings upon their supervisors' approvals.



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As required under PRC regulations, we participate in housing fund and various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations.

During the Track Record Period, we had engaged third-party human resources agencies to pay social insurance premium and housing provident funds for some of our employees and engaged certain dispatched employees. For details, see the section headed “Risk Factors — Risks Relating To Our Business And Industry — Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other regulations of the PRC may have an adverse impact on our financial condition and results of operations”.

According to the Labor Dispatch Provisions (with such term defined in the section headed “Risk Factors — Risks Relating To Our Business And Industry — Failure to pay the social insurance premium and housing provident funds for and on behalf of our employees in accordance with the Labor Contract Law or comply with other regulations of the PRC may have an adverse impact on our financial condition and results of operations” in this document), the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both hired employees and dispatched employees. The Labor Dispatch Provisions further require any employer who is not in compliance with such requirements to reduce the ratio of dispatched employees to below 10% by March 1, 2016. As of the Latest Practicable Date, we had rectified the non-compliance. During the Track Record Period and up to the Latest Practicable Date, we had not been penalized by any competent government authorities.

## INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain keyman life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. During the Track Record Period, we did not make any material insurance claims in relation to our business.

## PROPERTIES

As of the Latest Practicable Date, we operated our businesses through 12 leased properties in Shanghai, Beijing, Suzhou, Wuhan and various other cities in China. Our leased properties in China

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serve as our offices. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations. We believe that there is sufficient supply of properties in China. Furthermore, even if we experience temporary interruption to our usage of any of our leased office space, we believe that our employees can continue to perform the material aspects of their duties remotely given that our offices do not carry out any production, manufacturing or physical retail activities; and our offices in other locations can adequately support the functioning of our business operations in areas where we experience temporary office space interruptions through our technology infrastructure. Therefore, we do not rely on the existing leases for our business operations, and we do not believe a contingency relocation plan is required. Our servers and network facilities for providing services to our users are not kept in any of our aforementioned leased properties. Our servers and network facilities for internal administrative functions are kept in our leased properties. To minimize any potential disruption to our internal administrative functions in the event we experience temporary interruption to our use of leased properties, we place redundant core internal systems in two leased properties in Beijing and Shanghai.

As of June 30, 2017, our leased properties have a total gross floor area of approximately 49,600 square meters, and each leased property ranges from a gross floor area of approximately 380 square meters to 12,108 square meters. The relevant lease agreements have lease expiration dates ranging from July 11, 2017 to December 2, 2020.

As of the Latest Practicable Date, lessors of nine of our leased properties in China had not provided us with valid title certificates, valid title certificates for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties.

Pursuant to the applicable PRC laws and regulations, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we had not obtained any lease registration for the 12 properties we leased in China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that the unregistered leases are registered. Our PRC Legal Advisor has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under PRC laws, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. The estimated total maximum penalty is RMB120,000.

As of June 30, 2017, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

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### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We do not operate any production facilities. In addition, for our physical book production and distribution business, we engage third parties to ship and deliver our books to bookstores and wholesalers. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

### LEGAL PROCEEDINGS AND COMPLIANCE

We are involved in legal or other disputes in the ordinary course of our business. Most of the legal proceedings involve intellectual property claims initiated by us to protect intellectual properties owned by or licensed to us. The legal proceedings against us include claims brought by third-party platforms and writers relating to intellectual property infringement.

In August 2017, Migu, a subsidiary of China Mobile, commenced legal proceedings against us in Hangzhou Intermediate People's Court in China for ceasing to update a number of literary products on Migu's reading platform in purported breach of contract. In 2015, we, through our Consolidated Affiliated Entities, including Beijing Hongxiu, Shanghai Qiwen, Shanghai Xuanting and Xiaoxiang College, started to cooperate with Migu by providing our literary products to Migu's reading platform, *Migu Reading*, subject to our rights to propose pricing and promotion and to receive timely notice of proposed offerings of our literary products on *Migu Reading*. Pursuant to relevant contracts entered into with Migu, we share a certain percentage of the revenue generated from our literary products distributed on *Migu Reading*. Our revenue generated from the cooperation with Migu's predecessor, a subsidiary of China Mobile, in 2014, and Migu in subsequent periods, amounted to approximately RMB7.2 million, RMB127.6 million, RMB85.4 million and RMB27.9 million and accounted for approximately 1.5%, 7.9%, 3.3% and 1.4% of our revenue for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

In June 2017, Migu began to offer its subscribers unlimited access to all the products, including our literary products, on *Migu Reading* with various subscription packages, in particular, RMB9.9 per month and RMB98 per annum. We did not have the opportunity to review and propose pricing and were not notified in advance of the proposed offerings. Migu's unlimited-access subscription packages include all of our premium literary titles that are largely charged by character count on our platform, self-operated channels and other third-party distribution channels. We believe that Migu engaged in unfair competition and disrupted our pricing and distribution strategy, therefore bringing irreparable harm to our business interests. In the same month, we requested that Migu discontinue offering its promotional subscription packages by excluding our literary products, but did not receive any positive response. We subsequently ceased to update a number of literary products to Migu, while those completed literary products were still available on *Migu Reading* as of the Latest Practicable Date. We received statements of claims against Beijing Hongxiu and Shanghai Qiwen demanding damages in the amount of approximately RMB243 million, and based on publicly available information, we expect to receive statements of claims against Shanghai Xuanting and Xiaoxiang College demanding damages

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in the amount of approximately RMB362 million. In these statements and potential statements of claims, Migu demanded damages in the aggregate amount of approximately RMB605 million and specific performance that we resume updating our literary products on *Migu Reading*. Based on the legal advice of Co-effort, we believe that Migu's claims are without merit and we intend to defend ourselves vigorously.

As advised by Co-effort, Migu's certain promotional activities and business cooperation with other third parties may constitute a prior breach of contracts. We believe our decision to cease updating our literary products will likely be regarded as a legitimate action to minimize loss and is a result of the facts, among others, that Migu engaged in unfair competition by offering some of our products to its subscribers at substantially lower rates than the prevailing market rates, and that Migu exceeded the scope of our authorization in using our literary products. As further advised by Co-effort, in the event that the court supports all or parts of Migu's claim, the possible damages that Migu would be awarded shall be limited to covering the reasonably foreseeable losses incurred as a direct result of the alleged breach of contract by us and the claimed damage amount shall be substantiated by sufficient evidence. Considering that (i) our historical revenue generated from our cooperation with Migu, pursuant to the relevant contracts between us and Migu, was significantly less than RMB605 million and (ii) one of the relevant contracts with Migu has already expired on September 30, 2017 and the remaining contracts will expire between November 30, 2017 and June 30, 2018, Co-effort is of the view that the aggregate amount of damages of approximately RMB605 million claimed by Migu is out of proportion and unreasonable and the likelihood for Migu to be awarded such amount by a PRC court is remote.

Having considered (i) the legal advice from Co-effort; (ii) the facts of these legal proceedings and evidence currently presented by Migu; (iii) the merits of Migu's claim and the reasonableness of the damages claimed by Migu; and (iv) our historical revenue generated from the cooperation with Migu and the limited impact on our business in the event that we sever our business relationship with Migu and China Mobile, we believe that the above litigation will not cause any material adverse effect on our business, financial condition and result of operations.

On October 19, 2017 we were notified that Ms. Zhang Baohua had filed legal proceedings with the District Court in Haidian, Beijing, on October 16, 2017 to enforce her rights under the IA as described in the section headed "History, Reorganization and Corporate Structure — Tianjin Under Banyan Information Technology Co., Ltd." in this document. Upon becoming aware of these proceedings, we consulted with our PRC Legal Advisor who continues to be of the view that, on the proper construction of the IA, the likelihood that the PRC courts would construe the IA to extend to the Listing and for Ms. Zhang Baohua to have a successful cause of action directly against us to take part in the Listing using her 49% equity interest in Tianjin Under Banyan is remote given that: (a) our Company is not a party to and is therefore not bound by the IA; (b) the shareholders of our Company are not parties to the IA; (c) it is unlikely that a PRC court will issue an order that the shareholding of Ms. Zhang Baohua be replaced by shares of our Company as it is a company incorporated in the Cayman Islands; and (d) there is a lack of operative terms in the IA to execute any purported tag-along rights set out in the IA (such as the form, approach, price and procedure) relating to the Listing.

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Furthermore, following consultation with our PRC Legal Advisor, we are of the view that irrespective of the level of damages claimed by Ms. Zhang Baohua or the outcome of the legal proceedings (or any associated legal proceedings), they will not have a material effect on our business, financial condition or results of operations for the following reasons:

- the IA does not specify the ramifications of Shanghai Hongwen not obtaining Ms. Zhang Baohua's consent for any listing or reorganization activities. On the contrary, clause 10.1 of the IA specifies that the remedy for any breach of the terms of the IA is the payment of damages for losses incurred;
- Tianjin Under Banyan's contribution to the Group, both from a business perspective and a financial perspective, is immaterial. For the year ended December 31, 2016 and the six months ended June 30, 2017, Tianjin Under Banyan was loss-making and contributed less than 0.1% and 0.1% of our revenues, respectively. As at June 30, 2017, Tianjin Under Banyan's assets represented less than 0.1% of our Group's total assets. Furthermore, as disclosed in the section headed "Financial Information — Discussion of Certain Key Balance Sheet Items — Intangible Assets" in this document, we have incurred impairment losses on intangible assets in recent years due to the deteriorating performance of Tianjin Under Banyan;
- in light of its immaterial contribution to the Group and deteriorating financial performance, if the Haidian District Court was to determine that Tianjin Under Banyan should be excluded from our Group, the restructuring of Tianjin Under Banyan out of our Group would have no material adverse impact on us, our business or our financial position;
- on the other hand, if the Haidian District Court was to determine that we were required to pay monetary damages to Ms. Zhang Baohua, such damages would mainly be based on an assessment of the actual damage incurred by Ms. Zhang Baohua, which would in turn primarily depend on the valuation of Tianjin Under Banyan at the time of its acquisition by us, the contribution of Tianjin Under Banyan to our Group, and the current valuation of Tianjin Under Banyan. We invested only approximately RMB7 million to acquire a 51% equity interest in Tianjin Under Banyan. As such, in light of the immateriality of both the then valuation of Tianjin Under Banyan and its contribution to our Group, any monetary damages payable by us to Ms. Zhang Baohua would have no material adverse impact on us or our financial position.

To the best of our knowledge, we are not aware that Ms. Zhang Baohua has filed or intends to file any other proceedings in relation to the IA, but cannot assure you that she will not do so. Based on the legal advice from our PRC Legal Advisor, we believe that the legal proceedings commenced by Ms. Zhang Baohua with respect to the swapping of her equity interests in Tianjin Under Banyan with shares of our Company as well as her claim for significant damages are without merit and we intend to vigorously defend them.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation and compliance. We have not incurred legal costs and expenses in connection with such proceedings that are significant in the context of our overall

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operating results. The Office of the National Working Group for Crackdown on Pornographic and Illegal Publications launched an overall industry investigations in the PRC since August 2017 on pornographic and obscene online literary content, and such investigations involve certain websites operated by us. However, as of the Latest Practicable Date, we had not been subject to any material administrative actions or penalties arising from such investigations. For details on the measures taken by us to deal with allegations to us relating to distribution of pornographic content and to ensure that our literary works do not contain any obscene or pornographic content, see “ — Our Content Library — Content Screening and Monitoring” in this document.

We are subject to regulations and inspections by the relevant PRC regulatory authorities, primarily including the SAIC, MOFCOM, MIIT, GAPPRFT, the Ministry of Culture, the CAC and their respective local offices. These inspections have previously resulted in findings of non-compliance incidents and the incurrence of certain penalties. Although such incidents and penalties did not have any material adverse effect on our business, financial condition and results of operations, we have implemented remedial and precautionary measures to prevent the reoccurrence of such incidents.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources and investment management.

#### **Financial Reporting Risk Management**

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and financial department and staff management policies. We have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures. We also provide regular training to our financial department staff to ensure that they understand our accounting policies.

As of June 30, 2017, our finance department consisted of 39 employees. It is headed by our vice president of finance, who has more than eight years of experience in financial reporting.

#### **Information System Risk Management**

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.



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As of June 30, 2017, our IT operation and maintenance department consisted of over 300 employees. It is responsible for ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations. The head of our information technology department has over 15 years of experience in the area. We provide regular trainings to our information technology team and discuss any issues or necessary updates.

### **Compliance Risk Management**

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations.

In accordance with these procedures, our in-house legal department, which consists of 15 employees, performs the basic function of reviewing and updating the form of contracts we enter into with our readers, distribution channels and suppliers. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

We also have in place detailed internal procedures to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

We have a dedicated team of five employees within our in-house legal team responsible for ensuring the compliance of our online games operations with the relevant rules and regulations, including but not limited to the Internet Cafés Notice and the Virtual Currency Notice. We carefully monitor virtual currency transactions, including issuance, purchase and trading, on our platform. We also strictly prohibit any resale of virtual currency on our platform, as well as any lottery-base activities on our platform whereby virtual items or virtual currency are given out in exchange for players' cash or virtual money.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

### **Human Resources Risk Management**

We provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior employees or outside consultants on topics of interest that employees can vote on. The training center, run by senior management members, schedules regular trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. Through these trainings, we ensure that our staff's skill sets remain up-to-date and enable them to discover and meet our customers' needs.



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We have in place an employee handbook approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence and corruption. We provide employees with regular trainings and resources to explain the guidelines contained in the employee handbook.

We also have in place an *Anti-Corruption Policy* to safeguard against any corruption within our Company. The policy explains potential corruption conducts and our anti-corruption measures. We make our internal reporting channel open and available for our staff to report any corruption acts, and our staff can also make anonymous reports to our internal audit department. Our internal audit department is responsible for investigating the reported incidents and taking appropriate measures.

### **Investment Risk Management and Treasury Policy**

Our investment strategy is to invest in or acquire businesses that are complementary to our business, such as businesses that can expand our content creation, sourcing, distribution and adaptation capabilities and strengthen our technological capabilities. We set up an annual investment plan in line with our business strategies with inputs from various business departments. An investment budget is set up based on our overall financial conditions every year.

We generally intend to hold our investments for the long term. Our investments are generally made in the form of preferred shares (in the case of companies incorporated outside China) or ordinary shares with preference rights (in the case of companies incorporated in China). In order to manage the potential risks associated with investments, we generally request our investee companies to grant us all or some of the following rights:

- rights to appoint directors;
- veto rights in board and shareholder meetings on significant matters;
- information rights;
- liquidation preference;
- redemption rights;
- anti-dilution rights;
- pre-emptive rights;
- rights of first refusal and co-sale rights;
- sale transfer restriction on founders of investee companies; and
- restriction on the timing and minimum market capitalization of their initial public offerings.

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Depending on our discussions with the investee companies, we may not be granted all of the rights requested.

Our investment department is responsible for investment project sourcing, screening, execution and post-investment risk management. As of June 30, 2017, our investment department consisted of seven employees. The head of our investment department has approximately 15 years of experience in the area. The department sources investment projects in accordance with our investment strategy, and preliminarily assesses the risks and potential of the investment projects. Once target companies are identified, the department will present them to our strategy and investment committee (members consist of the Co-Chief Executive Officers, the President and the head of the investment department) for preliminary approval. After obtaining the preliminary approval, the department then drafts and issues term sheets, which set out the principal investment terms including, among other things, investment amount, percentage of shares to be acquired and preference rights, to the target companies. Once the term sheets are mutually agreed by the target companies and us after discussion, the department will conduct legal, business, financial and operational due diligence on the target companies, and draft investment agreements based on the agreed term sheets. Members of the strategy and investment committee will discuss the results of due diligence and the risks involved in the investment in the target companies. Any proposed investment will be submitted to our board of directors for approval if the investment amount involved exceeds RMB50 million.

In addition, our investment department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and providing recommendations on measures to reduce any risks involved in each investment project, and must report to the head of the department and then to our strategy and investment committee if there is any material change to the financial position of an investment.

The following table sets forth our capital expenditures and long-term investments for the periods indicated:

|  | For the year ended December 31, |                |                | For the six months<br>ended June 30, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2014                            | 2015           | 2016           | 2016                                 | 2017           |
|  |                                 |                |                | (unaudited)                          |                |
|  | (in thousands of RMB)           |                |                |                                      |                |
| Purchase of property, plant and<br>equipment ..... | 3,538                           | 22,464         | 19,861         | 3,196                                | 10,031         |
| Purchase of intangible assets.....                 | 52,171                          | 133,164        | 113,231        | 62,981                               | 58,040         |
| Long-term investments <sup>(1)</sup> .....         | —                               | 10,472         | 63,300         | 57,500                               | 103,400        |
| <b>Total</b> .....                                 | <u>55,709</u>                   | <u>166,100</u> | <u>196,392</u> | <u>123,677</u>                       | <u>171,471</u> |

*Note:*

(1) Long-term investments during our Track Record Period represent investments accounted for using the equity method.

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For detailed breakdown and the nature of our capital expenditures and long-term investments during the Track Record Period, see the section headed “Financial Information — Capital Expenditures and Long-Term Investments” in this document.

With our surplus cash on hand, we make term deposits, which are bank deposits with original maturities over three months, and short-term investments, which are wealth management products issued by banks in China. The majority of such wealth management products are contractually principal-protected. The primary objective of short-term investments is to generate finance income at a yield higher than current deposit bank interest rates, with an emphasis on capital preservation. Our investment decisions are made on a case-by-case basis and after due and carefully consideration of a number of factors, including but not limited to the market conditions, the anticipated investment conditions, the investment costs, the duration of the investment and expected benefit and potential loss of the investment.

Our finance department, under the supervision of our vice president of finance, is responsible for managing our short-term investment activities. Before making a proposal to invest in wealth management products, our financial department must assess our cash flow and operational needs and capital expenditures. If the cash flow exceeds our operational needs and appropriate short-term investment opportunities are available, the financial department will submit the investment proposal to our senior management for approval. According to our internal policies, regardless of the investment size, a proposal to invest in wealth management products must first be reviewed by our co-chief executive officers. After our co-chief executive officers approve the proposal, the finance department may start to negotiate the investment terms under the supervision of our vice president of finance.

In assessing a proposal to invest in wealth management products, a number of criteria must be met, including but not limited to:

- investments in high risk products being prohibited;
- the primary objectives of investment activities are safety, liquidity and reasonable yield;
- the proposed investment must not interfere with our business operation or capital expenditures; and
- the wealth management products should be issued by a reputable bank.

We believe that our internal policies regarding investment in wealth management products and the related risk management mechanism are adequate. We may make investments in wealth management products that meet the above criteria as part of our treasury management where we believe it is prudent to do so after the Listing.

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### **Audit Committee Experience and Qualification and Board Oversight**

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Yang Xiang Dong. Ms. Yu Chor Woon Carol and Ms. Leung Sau Ting Miranda are independent non-executive Directors and Mr. Yang Xiang Dong is a non-executive Director. Ms. Yu Chor Woon Carol is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see the section headed “Directors and Senior Management — Directors” in this document.

We also maintain an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the board of directors if necessary.

### **Ongoing Measures to Monitor the Implementation of Risk Management Policies**

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

### **LICENSES AND PERMITS**

As of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in China.

The following table sets out a list of material licenses and permits currently held by us:

| No. | Entity               | Name of the License | Expiry Date    |
|-----|----------------------|---------------------|----------------|
| 1.  | Shanghai Yuewen      | ICP License         | March 26, 2020 |
| 2.  | Shanghai Xuanting    | ICP License         | June 8, 2018   |
| 3.  | Tianfang Jinma       | ICP License         | April 17, 2018 |
| 4.  | Wangwen Xinyue       | ICP License         | July 21, 2020  |
| 5.  | Beijing Hongxiu      | ICP License         | March 28, 2019 |
| 6.  | Suzhou Jingwei       | ICP License         | April 1, 2018  |
| 7.  | Shenzhen Lazy Online | ICP License         | June 26, 2019  |

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| No. | Entity   | Name of the License   | Expiry Date                        |
|-----|--|---|------------------------------------|
| 8.  | Beijing Yueyan Technology Co., Ltd.                        | ICP License   | November 22, 2021                  |
| 9.  | Shanghai Yuewen  | Online culture operating permit   | November 18, 2017<br><i>(Note)</i> |
| 10. | Shanghai Hongwen   | Online culture operating permit   | June 16, 2019                      |
| 13. | Shanghai Xuanting  | Online culture operating permit   | February 16, 2018                  |
| 14. | Tianfang Jinma   | Online culture operating permit   | June 1, 2020                       |
| 15. | Wangwen Xinyue   | Online culture operating permit   | February 24, 2019                  |
| 16. | Beijing Hongxiu  | Online culture operating permit   | December 31, 2017 <sup>(1)</sup>   |
| 17. | Tianjin Xuanting Information Technology Co., Ltd.          | Online culture operating permit   | August 8, 2020                     |
| 18. | Shenzhen Lazy Online                                       | Online culture operating permit   | September 5, 2020                  |
| 19. | Shanghai Hongwen   | Publication operation license   | March 31, 2018                     |
| 20. | Shanghai Xuanting  | Publication operation license   | March 31, 2021                     |
| 21. | Tianfang Jinma   | Publication operation license   | April 30, 2022                     |
| 22. | Wangwen Xinyue   | Publication operation license   | April 30, 2022                     |
| 23. | Beijing Hongxiu  | Publication operation license   | April 30, 2022                     |
| 24. | Tianjin Zhongzhi Bowen Book                                | Publication operation license   | December 31, 2020                  |
| 25. | Tianjin Huawen Tianxia Book                                | Publication operation license   | March 31, 2022                     |
| 26. | Tianjin Jushi Wenhua Book                                  | Publication operation license   | March 31, 2022                     |
| 27. | Tianjin Under Banyan                                       | Publication operation license   | March 31, 2018                     |
| 28. | Suzhou Jingwei   | Publication operation license   | March 31, 2020                     |
| 29. | Shanghai Xuanting  | Internet publishing service license                                     | October 29, 2018                   |
| 30. | Beijing Hongxiu  | Internet publishing service license                                     | December 31, 2021                  |
| 31. | Tianfang Jinma   | Permit for Audio-Video Programs Transmitted through Information Network | May 25, 2019                       |
| 32. | Shanghai Yuewen Television Culture Communication Co., Ltd. | Radio and television program production and operation license           | April 1, 2019                      |

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*Note:*

- (1) We will submit the relevant renewal applications for the online culture operating permits held by Shanghai Yuewen and Beijing Hongxiu 30 days prior to the expiry dates as required by the applicable PRC laws and regulations.

We have also encountered the following issues relating to our licenses and permits which we believe do not have any material financial or operational impact on us.

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### *Operating License for Value-added Telecommunications Services*

Under PRC laws and regulations, entities engaging in commercial value-added telecommunications services must obtain an operating license for value-added telecommunications services, or the ICP license. During the Track Record Period and up to the Latest Practicable Date, neither Tianjin Under Banyan nor Shanghai Hongwen held an ICP license. However, for the two years ended December 31, 2016, both Shanghai Hongwen and Tianjin Under Banyan did not record any revenue generated from providing value-added telecommunication services. As of the Latest Practicable Date, Shanghai Hongwen had ceased providing value-added telecommunications services. In June 2017, representatives of our Company and of the Joint Sponsors consulted the MIIT, and the MIIT verbally confirmed that an entity can enter into a technology service agreement with its affiliates holding an ICP license in order for such entity to conduct the relevant business. Our PRC Legal Advisor is of the view that the MIIT is the competent authority to provide the aforementioned confirmation. Tianjin Under Banyan had entered into a technology service agreement with Shanghai Xuanting, which holds an ICP license, in order for Tianjin Under Banyan to provide value-added telecommunications services.

If an entity operates value-added telecommunications services without an ICP license, such entity may be ordered by the relevant governmental authority to rectify the violation, confiscate illegal gains and be imposed a fine. For serious offences, the relevant governmental authority may order such entity to suspend business operations and undergo rectification.

The officers of the MIIT interviewed serve in the Market Division of Information and Communication Administration of the MIIT (工業和信息化部信息通信管理局市場處). The Market Division of Information and Communication Administration of the MIIT is mainly in charge of supervision and administration of information and communication services as well as supervision and guidance of market access to telecom and internet services. Based on the above and its understanding of the businesses that the Group operates, our PRC Legal Advisor is of the view that the officers of the MIIT that provided the verbal confirmations are competent authorities.

Our PRC Legal Advisor has advised us that, based on the consultation with MIIT, the likelihood of us being subject to fines, regulatory actions or penalties because of the above situation is remote. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations.

### *Internet Publishing Service License*

In addition to the ICP license, Internet publishing service license is necessary for operating our online literature platform in the PRC. If any entity engages in Internet publishing service without an Internet publishing service license, such entity may be ordered to shut down its online platform and to suspend its business operations by the relevant governmental authority. Our PRC Legal Advisor has advised us that while our Internet publishing service license is necessary for each of our subsidiaries to provide online paid reading services through online platforms, including website(s) and WAPs, there is no clear guidance under applicable PRC laws and regulations as to whether a member company is allowed to publish literature content through mobile apps by relying on the Internet publishing service license(s) held by the other member company(ies) within the same group or even without any

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Internet publishing service license(s). Beijing Hongxiu currently holds a valid Internet publishing service license. During the Track Record Period and up to the Latest Practicable Date, none of Shanghai Yuewen, Wangwen Xinyue, Tianjin Under Banyan, Suzhou Jingwei or Shenzhen Lazy Online held an Internet publishing service license. Shanghai Xuanting had not completed the annual inspection on its Internet publishing service license as of the Latest Practicable Date. Based on our estimate by reference to the unaudited management accounts of the five member companies prepared based on IFRS and our operational statistics, the revenue generated by the five member companies from online paid reading services provided through website(s) and WAPs without their own Internet publishing service licences accounted for approximately 41.4%, 12.7%, 6.9% and 5.5% of the Group's revenues for the three years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017, respectively. As *mobile apps* continue to penetrate among the readers as an increasingly popular channel for online paid reading, we currently expect that the revenue contribution of the revenue generated through websites and WAPs will continue to decrease in the near future.

In June 2017, representatives of our Company and of the Joint Sponsors consulted GAPPRFT in relation to the relevant license and approval requirement. Based on the consultation, we understand that GAPPRFT is aware that not all of our affiliates which conduct and had conducted Internet publishing services currently hold valid Internet publishing service licenses. During the consultation, GAPPRFT pointed out that under PRC laws, an entity which operates the businesses of publishing is required to obtain the relevant licences, and failure to do so would render such entity liable to be sanctioned. GAPPRFT also indicated that they do not encourage the practice of sharing of licences among members of the same group of companies. However, GAPPRFT mentioned that in 2015 they carried out an industry-wide assessment from a compliance perspective. After the assessment, GAPPRFT identified a list of a limited number of leading websites (重點網站) and all of the literature websites of our Company were included in the list. According to GAPPRFT, should GAPPRFT decide to relax the regulatory environment in the future, these leading websites would receive priority consideration. As our Company is one of such leading websites identified by GAPPRFT, at this stage GAPPRFT recognizes the Company's current licensing status. Our PRC Legal Advisor is of the view that GAPPRFT is the competent authority to provide the aforementioned confirmation.

The officer of the GAPPRFT interviewed serves in the Digital Publishing Department of the GAPPRFT (國家新聞出版廣播電視總局數字出版司). The Digital Publishing Department of the GAPPRFT is mainly in charge of supervision and administration of content and activities of digital publishing including online culture, online books and services related thereto. Based on the above and its understanding of the businesses that the Group operates, our PRC Legal Advisor is of the view that the officer of the GAPPRFT that provided the verbal confirmations is a competent authority.

Our PRC Legal Advisor has advised us that, based on the above consultation with GAPPRFT, the likelihood of us being subject to fines, regulatory actions or penalties because of the above situation is remote.

In August 2017, representatives of us and of the Joint Sponsors consulted the relevant officers of the Shanghai Municipal Press and Public Bureau (Shanghai Municipal Copyright Bureau) (上海市新聞出版局(上海市版權局)) (the "SMPPB") with a view to further clarifying the license and permit requirements for the online paid reading services provided by Shanghai Yuewen through mobile



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platforms and Shanghai Xuanting's licensing status. During this consultation, the officers confirmed that (i) there is currently no specific rule concerning the operation of Internet publishing services through mobile apps. In the absence of any prohibitive rule relating to mobile apps, operation of the relevant businesses through mobile apps is generally permitted; (ii) in the absence of any detailed regulation or rule, it would be a good practice for us to own our mobile apps under the names of the other entities which hold the Internet publishing service licenses. If detailed regulations and rules are introduced in the future, our Group, being a leading industrial player, will receive priority consideration for license and qualification in the new system; (iii) in the recent years, the SMPPB has not imposed any administrative penalty on our Group; and (iv) since all the "Internet publishing service licenses" (互聯網出版許可證) in Shanghai need to be updated to "Online publishing service licenses" (網絡出版服務許可證), the annual inspection for Internet publishing service license has been suspended in Shanghai at the current stage. Unless there is non-compliance involving Shanghai Xuanting, there will be no impediment for Shanghai Xuanting to update its license and pass annual inspection. Pending updating of the license and completion of the annual inspection, it is legal for Shanghai Xuanting to operate within the remaining term of its Internet Publishing Service License.

Our PRC Legal Advisor is of the view that the SMPPB, being the regulator for Internet publishing activities in Shanghai, is the competent authority to provide the above confirmation. Based on the above consultation with the SMPPB, our PRC Legal Advisor is of the view that: (i) in the absence of specific guidance under applicable PRC laws and regulations as to the license and permit requirement for operation of online paid reading services through mobile apps, Shanghai Yuewen's operation of online paid reading services through mobile apps has not violated applicable PRC laws and regulations; and (ii) Shanghai Xuanting's incomplete annual inspection on its Internet publishing service license does not affect the validity of the license.

GAPPRFT is responsible for the prior approval, supervision and administration of the Internet publishing service nationwide, which confirmed that an entity operating the businesses of publishing is required to obtain the relevant licences, taking a holistic perspective consistent with its overall supervision of the internet publishing service license. SMPPB is the direct regulator for Internet publishing activities in relation to the Internet publishing services in Shanghai, taking the perspective of specific operating channels, and the specific confirmation that in the absence of any prohibitive rule relating to *mobile apps*, operations of the relevant business through *mobile apps* is generally permitted was given by SMPPB.

In view of (i) the revenue contribution from Wangwen Xinyue, Tianjin Under Banyan, Suzhou Jingwei, Shenzhen Lazy Online and the online paid reading services provided through Shanghai Yuewen's websites and WAPs being limited in 2016, (ii) our current expectation that *mobile apps* will continue to penetrate among readers, (iii) GAPPRFT's verbal confirmation on our current licensing status and (iv) the consultation with the SMPPB, our Directors are of the view that the fact that certain of its member companies did not obtain their own Internet publishing service licenses will not have any material adverse impact on our business, financial condition or results of operations.

### ***Permit for Audio-Video Programs Transmitted through Information Network***

We are legally required to obtain the AVSP for Shenzhen Lazy Online, the operator of the *lrts.me* website and mobile app, which offer audio-books for their users. If an entity engages in Internet

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audio-visual program services without an AVSP, the relevant governmental authority may give such entity a warning, order such entity take remedial actions, impose a fine or suspend its relevant business operation. During the Track Record Period and up to the Latest Practicable Date, Shenzhen Lazy Online did not hold an AVSP. According to the applicable PRC laws and the current practice of relevant governmental authorities in the PRC, only companies wholly-owned or controlled by the state controlling equity interest are eligible to obtain AVSPs.

The audio-book business of Shenzhen Lazy Online is one of our peripheral businesses and was acquired in December 2014. For the two years ended December 31, 2016, the revenue generated from Internet audio-visual program services of Shenzhen Lazy Online contributed nil and 0.3% of our total revenue, respectively, which is immaterial and recorded as part of other revenue during the Track Record Period. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations.

### *Pre-Approval and Filing of the Content of Domestic Online Games*

We had operated and currently operate online games on the *Games* website in *qidian.com*.

According to the applicable PRC laws and regulations, for each online game, the operator of such game must obtain GAPPRFT's pre-approval before such operator can launch such game online. Failure to obtain such prior approval may result in the GAPPRFT ordering the operation of such online game to be ceased, in addition to other legal sanctions.

Furthermore, according to the applicable PRC laws and regulations, an entity providing internet publishing services must, before launching its games online, file an application for pre-approval with GAPPRFT. If any relevant entity launches online games without such prior approval, such entity may be ordered to shut down the offending website. As of June 30, 2017, Shanghai Xuanting had not obtained GAPPRFT's pre-approval for 22 online games that Shanghai Xuanting operated on the *Games* website mentioned above. As of the Latest Practicable Date, we had obtained GAPPRFT's pre-approval for all online games we were operating on our platform.

The *Interim Measures for the Administration of Online Games* issued by the Ministry of Culture, which took effect on August 1, 2010, regulates a broad range of activities related to the online game business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The interim measures require that the content of a domestic online game must be filed within 30 days of the launch with the relevant branch of the Ministry of Culture. Violations of such filing requirement may result in a governmental order for the entity in breach to take remedial measures. Furthermore, MOC may impose a fine of up to RMB20,000 per game on the entity violating such filing requirement.

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As of June 30, 2017, Shanghai Xuanting had not completed the filing of the content of 23 online games that it operated. Our PRC Legal Advisor has advised us that the maximum monetary penalty for such cases involving filings is RMB0.46 million. As of the Latest Practicable Date, we had completed the filing of the content of all online games that we were operating.

Our online games business is one of our peripheral businesses, the revenue contribution of which is recorded as part of other revenue during the Track Record Period. We do not intend to focus on developing new proprietary online games or expanding joint operation arrangement for our non-proprietary online games in the future. Our PRC Legal Advisor has advised us that, based on the facts that (i) as confirmed by our Company, there is no illegal content in the online games operated by Shanghai Xuanting, and (ii) the *Game* website in *qidian.com* is only peripheral to the overall business operation of *qidian.com*, the likelihood that the relevant government authority in China would shut down or suspend our *qidian.com* website because of the above situation is remote. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. We plan to obtain pre-approval of and to file the content of our domestic online games with best effort as soon as practicable.

We have adopted the following measures to further improve our corporate governance and internal control systems:

- establishing an audit committee comprising independent non-executive Directors to supervise our internal control systems;
- our legal department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any updates to applicable laws and regulations;
- we will retain external legal advisor(s) to advise on compliance matters when necessary; and
- developing additional measures, including implementation of internal policies and provision of training programs to the relevant personnel.

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### AWARDS AND RECOGNITION

During the Track Record Period, we have received recognition for the quality and popularity of our products and services. Some of the significant awards and recognition we have received are set forth below.

| Award/Recognition  | Award Year | Awarding Institution/Authority   | Entity/Product           |
|--|------------|--|--------------------------|
| Best User Experience for an Android Mobile Reading App ..... | 2014       | IDG, 2014 Android Global Developers Conference                                       | <i>qidian.com</i>        |
| Best Functional Mobile App...                                | 2014       | iiMedia Research, Organizing Committee of the 2014 Global Mobile Internet CEO Summit | <i>qidian.com</i>        |
| National Key Culture Export Enterprise .....                 | 2015       | Ministry of Commerce   | Shanghai Xuanting        |
| Leading Chinese Internet Enterprise .....                    | 2016       | Organizers of the Second Internet Leaders' Summit                                    | China Literature Limited |
| Shanghai Key Culture Export Enterprise .....                 | 2016       | Municipal Government of Shanghai   | Shanghai Xuanting        |
| Best Website .....   | 2016       | Organizing Committee of the Seventh Best Websites in Shanghai Competition            | <i>qidian.com</i>        |
| Award in Innovation .....                                    | 2017       | Pudong District Government   | Shanghai Yuewen          |

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## CONTRACTUAL ARRANGEMENTS

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### BACKGROUND

Our Consolidated Affiliated Entities are currently the PRC Holdcos and their respective subsidiaries, which were all established under the laws of the PRC.

We operate the following businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment (the “**Catalog**”):

- Internet publication;
- audio-visual program services to the public; and
- online games (collectively the “**Relevant Businesses**”).

Foreign investment activities in the PRC are mainly governed by the Catalog, which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encourage”, “restricted” and “prohibited” categories). As confirmed by our PRC Legal Advisor, the Relevant Businesses are considered “prohibited” where foreign investment is strictly forbidden. The Relevant Businesses also fall within the value-added telecommunications services category, which is considered “restricted”.

There are three Consolidated Affiliated Entities, namely Tianjin Huawen Tianxia Book, Tianjin Jushi Wenhua Book, and Tianjin Zhongzhi Bowen Book (the “**Tianjin Entities**”) which primarily engage in book production and wholesale and retail sale of books, magazines and electronic publications which are not subject to any clear foreign investment restrictions under the relevant PRC laws and regulations. Notwithstanding the foregoing, we believe that the Contractual Arrangements are narrowly tailored due to the following reasons:

1. the businesses of the Tianjin Entities (the “**Tianjin Book Business**”) involves book production, design and editing. As advised by our PRC Legal Advisor: (i) “book editing” is a newly added “prohibited” industry under the revised Catalog as promulgated by the NDRC and the MOFCOM on June 28, 2017 and taking effect on July 28, 2017; and (ii) currently there is no clear guidance as to the definition or interpretation of “book editing” under the applicable PRC laws and regulations. As advised by our PRC Legal Advisor, it is likely that the Tianjin Book Business will fall within the scope of “book editing” and therefore be considered “prohibited” under the revised Catalog. This is because the Tianjin Entities also provide advice and set certain requirements around topic selection and content editing as part of their cooperation with state-owned publishers, which according to the Company’s PRC Legal Advisor, are likely to fall within the scope of “book editing” as suggested by the regulations detailed in the section headed “Regulation — Regulations Relating to Value-Added Telecommunication Services — Restrictions on Foreign Investment”. Such advice and requirements around topic selection and content editing relate to selections of subject matters such as book title, author, content, and target reader groups for the purpose of book publishing. When the Tianjin Entities provide such advice

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or set those requirements, the Tianjin Entities (i) collect, analyse and organize intelligence on the literature market by conducting various market research activities, (ii) advise on the appropriateness of subject matter of books in light of applicable PRC laws and regulation to ensure the content of such books will not include any improper information (e.g. information endangering the unification, sovereignty and territorial integrity of the country and inciting pornography, gambling or violence, which are prohibited by the applicable laws and regulations in the PRC), and (iii) advise on the subject matter of books in light of the book production cycle and the variability of the book publishing market so as to meet the market demand. Once the topic of books is decided alongside the publishers, the Tianjin Entities will draw on original content and resources from our online literature platforms to select, re-edit, and reorganize work or books created by different authors in preparation for publication. Based on the foregoing, we believe it is in our best interests to operate the Tianjin Book Business under the Contractual Arrangements to achieve our business purposes and minimize the potential for conflict with the relevant PRC laws and regulations; and

2. the Tianjin Book Business is closely related to and inseparable from our Internet publication business, which is subject to foreign investment restrictions (e.g. Internet publication), because (i) the contents of the Company's operation of its online literature platforms are used in the books published by the Tianjin Entities, and (ii) there is integrated management of personnel engaged in editing both physical books produced by the Tianjin Entities and online literary content published on the Company's online literature platforms.

We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

In view of the foregoing, we do not directly own any equity interest in our Consolidated Affiliated Entities. Each of the PRC Holdcos is owned by Litong as to 65.38% and Ningbo Meishan Yuebao as to 34.62%. Litong is owned by Ms. Chen Fei (陳菲) as to 25%, Mr. Zhu Jinsong (朱勁松) as to 25%, Ms. Hu Min (胡敏) as to 25%, and Ms. Li Huimin (李慧敏) as to 25%, while Ningbo Meishan Yuebao is owned by Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Luo Li as to 2.69% (i.e. the Relevant Individual Shareholders).

For further details of the licensing and approval requirements applicable to the Relevant Businesses under PRC laws and regulations, see the sections headed "Regulations — Regulations Relating to the Provision of Internet Content Services", "Regulations — Regulations Relating to Publication — Restrictions on Offline Distribution", "Regulations — Regulations Relating to Publication — Restriction on Internet Publication", "Regulations — Regulations Relating to Mobile Internet Applications Information Services", "Regulations — Regulations Relating to Internet Audio-visual Program Services" and "Regulations — Regulations Relating to Online Game Operation" in this document.

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## CONTRACTUAL ARRANGEMENTS

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In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the reorganization, the Contractual Arrangements currently in effect were entered into on June 26, 2017 and June 27, 2017, whereby Shanghai Shengting and Shanghai Yuechao (collectively, the “WFOEs”) have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. We believe that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in the PRC.

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC Legal Advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Business Cooperation Agreement with the WFOEs, which are PRC subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

### QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “FITE Regulations”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including Internet content provision services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “Qualification Requirements”). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. The guidance memorandum does not provide any further guidance on the



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## CONTRACTUAL ARRANGEMENTS

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proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisor has advised us that as of the Latest Practicable Date, (i) this guidance memorandum had no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the PRC Holdcos or any of our Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold any equity interests in enterprises which engage in the value-added telecommunications business. For the purposes of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, including:

- Webnovel.com, an international version of our proprietary online platform *Qidian.com*, was launched in May 2017 in order to target our overseas audience; and
- our subsidiary, Gravity, LLC, currently operates GravityTales.com which was launched in May 2015. The website provides its readers with English web novels and English translations of Chinese and Korean web novels.

Subject to the discretion of the competent authority in determining whether our Group has fulfilled the Qualification Requirements, our PRC Legal Advisor is of the view that the above steps taken by us may be deemed by the relevant PRC government authorities to satisfy the Qualification Requirements as we have experience in providing value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations and the guidance memorandum.

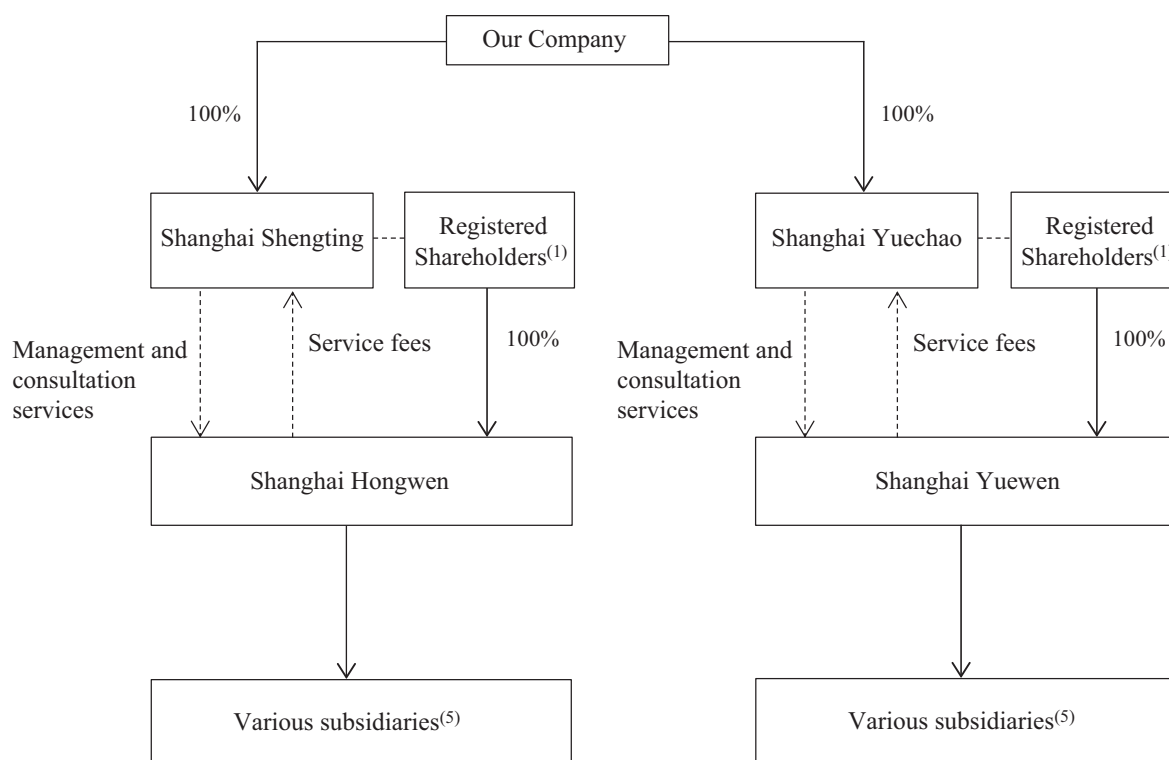
In June 2017, our PRC Legal Advisor conducted a consultation with the relevant government authority, being the MIIT, during which it confirmed that steps such as those taken by us above may be deemed to prove that the Qualification Requirements are fulfilled, subject to a substantive examination by the MIIT in accordance with the approval procedures under PRC laws and regulations. The officers of the MIIT who provided the verbal confirmation serve in the Market Division of Information and Communication Administration of the MIIT (工業和信息化部信息通信管理局市場處). The Market Division of Information and Communication Administration of the MIIT is mainly in charge of supervision and administration of information and communication services as well as supervision and guidance of market access to telecom and internet services. Based on the above and its understanding of the businesses that the Group operates, the Company's PRC Legal Advisor is of the view that the officers of the MIIT who provided the verbal confirmations has the competent authority to do so. We will, as applicable and when necessary, disclose the progress of our overseas business plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries to relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

## CONTRACTUAL ARRANGEMENTS

For taking the steps to meet the Qualification Requirements, we expect to incur RMB18.3 million for the year ending December 31, 2017.

### CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



*Notes:*

1. Registered Shareholders refer to the registered shareholders of the PRC Holdcos, namely Litong and Ningbo Meishan Yuebao. Litong and Ningbo Meishan Yuebao hold 65.38% and 34.62% of the equity interests, respectively, in each of the PRC Holdcos. Litong is owned by Ms. Chen Fei (陳菲) as to 25%, Mr. Zhu Jinsong (朱勁松) as to 25%, Ms. Hu Min (胡敏) as to 25%, and Ms. Li Huimin (李慧敏) as to 25%, while Ningbo Meishan Yuebao is owned by Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Mr. Luo Li (羅立) as to 2.69%.
2. “—>” denotes direct legal and beneficial ownership in the equity interest.
3. “--->” denotes contractual relationship.
4. “----” denotes the control by WFOEs over the Registered Shareholders and the PRC Holdcos through (1) powers of attorney to exercise all shareholders’ rights in the PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in the PRC Holdcos and (3) equity pledges over the equity interests in the PRC Holdcos.
5. These include certain investment vehicles which do not currently carry out any business operations but are intended for potential investment in businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. For further details of the subsidiaries of Shanghai Hongwen and Shanghai Yuewen, see the section headed “History, Reorganization and Corporate Structure — Corporate Structure”.

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## CONTRACTUAL ARRANGEMENTS

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### SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the PRC Holdcos is set out below.

#### **Exclusive Business Cooperation Agreements**

Under the exclusive business cooperation agreements dated June 26, 2017 between the PRC Holdcos and the WFOEs (the “**Exclusive Business Cooperation Agreements**”), pursuant to which, in exchange for a monthly service fee, the PRC Holdcos agreed to engage the WFOEs as its exclusive provider of technical support, consultation and other services, including the following services:

- the use of any relevant software legally owned by the WFOEs;
- development, maintenance and updating of software in respect of the PRC Holdcos’ business;
- design, installation, daily management, maintenance and updating of network systems, hardware and database design;
- providing technical support and staff training services to relevant employers of the PRC Holdcos;
- providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under PRC laws);
- providing business management consultation;
- providing marketing and promotional services;
- providing customer order management and customer services;
- transfer, leasing and disposal of equipment or properties; and
- other relevant services requested by the PRC Holdcos from time to time to the extent permitted under PRC laws.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOEs may adjust the scope and amount of services fees according to PRC tax law and tax practices, and the PRC

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## CONTRACTUAL ARRANGEMENTS

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Holdcos will accept such adjustments. The WFOEs shall calculate the service fee on a monthly basis and issue a corresponding invoice to the PRC Holdcos. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreements, the WFOEs may adjust the payment time and payment method, and the PRC Holdcos will accept any such adjustment.

In addition, absent the prior written consent of the WFOEs, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the PRC Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. The WFOEs may appoint other parties, who may enter into certain agreements with the PRC Holdcos, to provide the PRC Holdcos with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements also provide that the WFOEs have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Holdcos during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreements; (b) in writing by the WFOEs; or (c) renewal of the expired business period of either the WFOE or the PRC Holdcos is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

### **Exclusive Option Agreements**

Under the exclusive option agreements dated June 26, 2017 among the PRC Holdcos, the WFOEs and the Registered Shareholders (the “**Exclusive Option Agreements**”), the WFOEs have the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdcos to the WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred).

The PRC Holdcos and the Registered Shareholders, among other things, have covenanted that:

- without the prior written consent of the WFOEs, they shall not in any manner supplement, change or amend the constitutional documents of the PRC Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- they shall maintain the PRC Holdcos’ corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;

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## CONTRACTUAL ARRANGEMENTS

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- without the prior written consent of the WFOEs, they shall not at any time following the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the PRC Holdcos or legal or beneficial interest in the material business or revenues of the PRC Holdcos of more than US\$5,000,000, or allow the encumbrance thereon of any security interest;
- without the prior written consent of the WFOEs, the PRC Holdcos shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;
- the PRC Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the PRC Holdcos' operating status and asset value;
- without the prior written consent of the WFOEs, they shall not cause the PRC Holdcos to execute any material contract with a value above US\$5,000,000, except the contracts executed in the ordinary course of business;
- without the prior written consent of the WFOEs, they shall not cause the PRC Holdcos to provide any person with any loan or credit;
- they shall provide the WFOEs with information on the PRC Holdcos' business operations and financial condition at the request of the WFOEs;
- if requested by the WFOEs, they shall procure and maintain insurance in respect of the PRC Holdcos' assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- without the prior written consent of the WFOEs, they shall not cause or permit the PRC Holdcos to merge, consolidate with, acquire or invest in any person;
- they shall immediately notify the WFOEs of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the PRC Holdcos' assets, business or revenue;
- to maintain the ownership by the PRC Holdcos of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;
- without the prior written consent of the WFOEs, the PRC Holdcos shall not in any manner distribute dividends to their shareholders, provided that upon the written request of the WFOEs, the PRC Holdcos shall immediately distribute all distributable profits to their shareholders;

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## CONTRACTUAL ARRANGEMENTS

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- at the request of the WFOEs, they shall appoint any persons designated by the WFOEs as the directors and/or senior management of the PRC Holdcos;
- without the written consent of the WFOEs, they shall not engage in any business in competition with the WFOEs or its affiliates; and
- unless otherwise mandatorily required by PRC laws, the PRC Holdcos shall not be dissolved or liquidated without prior written consent by the WFOEs.

In addition, the Registered Shareholders, among other things, have covenanted that:

- without the written consent of the WFOEs, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the PRC Holdcos, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and the board of directors of the PRC Holdcos not to approve such matters;
- for each exercise of the equity purchase option, to cause the shareholders' meeting of the PRC Holdcos to vote on the approval of the transfer of equity interests and any other action requested by the WFOEs;
- they shall relinquish the pre-emptive right (if any) he/she is entitled to in relation to the transfer of equity interest by any other shareholders to the PRC Holdcos and give consent to the execution by each other shareholder of the PRC Holdcos with the WFOEs and the PRC Holdcos exclusive option agreements, equity interest pledge agreements and powers of attorney similar to the Exclusive Option Agreements, the Equity Pledge Agreements and the Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders; and
- each of the Registered Shareholders will transfer to the WFOEs or its appointee(s) by way of gift any profit or dividend in accordance with the PRC law.

The Registered Shareholders have also undertaken that, subject to the relevant laws and regulations, they will return to the WFOEs any consideration they receive in the event that the WFOEs exercise the options under the Exclusive Option Agreements to acquire the equity interests in the PRC Holdcos.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the PRC Holdcos have been transferred to the WFOEs or their appointee(s).

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## CONTRACTUAL ARRANGEMENTS

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### Equity Pledge Agreements

Under the equity pledge agreements dated June 27, 2017 entered into between the WFOEs, the Registered Shareholders and the PRC Holdcos (the “**Equity Pledge Agreements**”), the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdcos that they own, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of the PRC Holdcos takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the PRC Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the PRC Holdcos under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOEs shall have the right to require the PRC Holdcos’ shareholders (i.e. the Registered Shareholders) to immediately pay any amount payable by the PRC Holdcos under the Exclusive Business Cooperation Agreement, repay any loans and pay any other due payments, and the WFOEs shall have the right to exercise all such rights as a secured party under any applicable PRC law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

The registration of the Equity Pledge Agreements as required by the relevant laws and regulations have been completed in accordance with the terms of the Equity Pledge Agreements and PRC laws and regulations.

### Powers of Attorney

The Registered Shareholders have executed powers of attorney dated June 26, 2017 (the “**Powers of Attorney**”). Under the Powers of Attorney, the Registered Shareholders irrevocably appointed the WFOEs and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact’s prior written consent, any and all right that they have in respect of their equity interests in the PRC Holdcos, including without limitation:

- to attend shareholders’ meetings of the PRC Holdcos and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;
- to file documents with the relevant companies registry;



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## CONTRACTUAL ARRANGEMENTS

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- to exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of the PRC Holdcos, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the PRC Holdcos; and
- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the PRC Holdcos.

Each of the Registered Shareholders has undertaken that it will not directly or indirectly participate in engage in, involve in, or own any business which potentially compete with the relevant WFOE or its affiliates.

Further, the Powers of Attorney shall remain effective for so long as each shareholder holds equity interest in the PRC Holdcos.

### *Confirmations from the Relevant Individual Shareholders*

Each of the Relevant Individual Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the respective Registered Shareholder (together with any other interests therein) or exert influence on the day-to-day management of the respective Registered Shareholder; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective Registered Shareholder, he/her will take necessary actions to safeguard his/her interests in the respective Registered Shareholder (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective Registered Shareholder (together with any other interests therein) to the effect that the Registered Shareholder's interests in the PRC Holdcos shall not be affected.

### *Spouse undertakings*

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Relevant Individual Shareholder's interests in the respective Registered Shareholder (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

Our PRC Legal Advisor is of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any Relevant Individual Shareholders and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and the WFOEs or our Company can still enforce their right under the Contractual Arrangements against the Registered Shareholders.

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## CONTRACTUAL ARRANGEMENTS

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### **Dispute Resolution**

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai International Arbitration Center (“SHIAC”) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our PRC Holdcos or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our PRC Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the WFOEs or our PRC Holdcos are located for interim remedies or injunctive relief.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that the PRC Holdcos or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the section headed “Risk Factors — Risks Relating to our Contractual Arrangements” in this document for further details.

### **Conflict of Interest**

Each of the Registered Shareholders has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “— Powers of Attorney” above.

### **Loss Sharing**

Under the relevant PRC laws and regulations, none of our Company and the WFOEs is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOEs intend to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our Consolidated Affiliated Entities, which hold the requisite

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## CONTRACTUAL ARRANGEMENTS

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PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of the WFOEs, the PRC Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than US\$5,000,000; (ii) execute any material contract with a value above US\$5,000,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOEs and our Company in the event of any loss suffered from the PRC Holdcos can be limited to a certain extent.

### **Liquidation**

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of our Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to the WFOEs or its designee(s) to the extent permitted by the PRC laws.

### **Insurance**

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### **Our Confirmation**

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

## **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (a) parties to each of the Contractual Arrangements have obtained all necessary approvals and authorisations to execute and perform the Contractual Arrangements;

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## CONTRACTUAL ARRANGEMENTS

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- (b) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our PRC Holdcos or our WFOEs;
- (d) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that:
  - (A) the exercise of the option by our WFOEs of their rights under the Exclusive Option Agreements to acquire all or part of the equity interests in our PRC Holdcos are subject to the approvals of and/or registrations with the PRC regulatory authorities;
  - (B) any share pledge contemplated under the share pledge Agreements are subject to the registration with local administration bureau for industry and commerce;
  - (C) the arbitration awards/interim remedies provided under the dispute restitution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement.
- (e) each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
  - (i) the Contractual Arrangements provide that any dispute shall be submitted to the SHIAC for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Shanghai. They also provide that the arbitrator may award interim remedies over the shares or assets of our PRC Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our PRC Holdcos) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our PRC Holdcos. However, our PRC Legal Advisor has advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC; and
  - (ii) the Contractual Arrangements provide that the shareholders of our PRC Holdcos undertake to appoint a committee designated by our WFOEs as the liquidation committee upon the winding up of our PRC Holdcos to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

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The Administrative Measures for Internet Publication Service (《網絡出版服務管理規定》) (the “**Internet Publication Measures**”), were jointly promulgated by the GAPP and the MIIT on February 4, 2016 and became effective on March 10, 2016. Pursuant to the Internet Publication Measures, the GAPP, as the competent department of the Internet publication services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide.

According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) (the “**Internet Audio-Visual Program Regulations**”), which was promulgated by the Ministry of Culture, the State Administration of Radio Film and Television (the “**SARFT**”) and the MIIT on December 20, 2007 and amended on August 28, 2015, an Internet audio-visual program service provider shall obtain the Permit for Audio-Video Programs Transmitted, or the AVSP issued by the SARFT or complete certain registration procedures with SARFT in order to engage in Internet audio-visual program service. The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Provisions**”), which was promulgated by the Ministry of Culture on February 17, 2011, provide that Internet cultural entities are classified into operational Internet cultural entities and non-operational Internet cultural entities. Operational Internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the SARFT and the General Administration of Press and Publication of the PRC (“**GAPP**”) (《中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》) (the “**Interpretation**”), provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the Ministry of Culture.

On July 6, 2005, five PRC regulatory agencies, namely, the Ministry of Culture, SARFT, the GAPP, the CSRC and the MOFCOM, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》) (the “**Opinion on Canvassing Foreign Investment**”). According to the Opinion on Canvassing Foreign Investment, foreign investors are prohibited from engaging in such business as the Internet publication. On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). According to the Opinion on Canvassing Foreign Investment, non-state-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network. On September 28, 2009, the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, jointly issued the Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹和落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “**GAPP Notice**”). Article 4 of the GAPP Notice provides that foreign investors are not

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permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Notwithstanding the foregoing, in June 2017, representatives of our Company and of the Joint Sponsors consulted the MOC, MIIT, and GAPPRFT respectively. Our PRC Legal Advisor has advised us that (i) all of them are competent government authorities for the Company's principal business activities; and (ii) based on such consultations, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. The Company's PRC Legal Advisor is of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisor, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. Our PRC Legal Advisor is of the view that the MOC, MIIT, the GAPPRFT, and the personnel consulted in the interview are competent and authorized to interpret the relevant laws, regulations and rules of the PRC for the industry in which our Company operates its business and make the abovementioned oral confirmations. See the section headed "Risk Factors — Risks Relating to Our Contractual Arrangements — If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interest in our Consolidated Affiliated Entities".

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the SHIAC made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual



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Arrangements are (a) to enable our PRC Holdcos to transfer its economic benefits to the WFOEs as service fees for engaging the WFOEs as their exclusive service provider and (b) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of the WFOEs. In accordance with Article 4 of the PRC Contract Law, which is a section of the Part One (General Principles) of the PRC Contract Law setting forth fundamental principles under the PRC Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Advisor is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

### **ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS**

#### **Consolidation of Financial Results of our Consolidated Affiliated Entities**

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOEs, each of our PRC Holdcos will pay services fees to the WFOEs. The services fees, subject to the WFOEs' adjustment, are equal to the entirety of the total consolidated profit of our PRC Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOEs may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOEs also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the WFOEs have the ability, at its sole discretion, to extract all of the economic benefit of our PRC Holdcos through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOEs' prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.



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In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountant's Report in Appendix I to this document.

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Draft Foreign Investment Law

##### *Background*

The MOFCOM published the Draft Foreign Investment Law (中華人民共和國外國投資法) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. The MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in the PRC.

##### *Negative list*

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors on the "catalog of special administrative measures" (i.e. the "negative list"). The "catalog of special administrative measures" set out in the Draft Foreign Investment Law classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfil certain conditions and apply for permission before making such investment.

However, the Draft Foreign Investment Law does not specify the businesses to be included in the Catalog of Prohibitions and the Catalog of Restrictions.

##### *Principle of "actual control"*

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or "FIE". It specifically provides that entities established in the PRC but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as "controlled" by PRC

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entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the Catalog of Restrictions, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is defined in the Draft Foreign Investment Law to cover any of the following summarized categories:

- (i) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:
  - (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,
  - (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or
  - (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

In respect of “actual control”, the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights, and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or FIEs.

If an entity is determined to be a FIE and its investment amount exceeds certain threshold or its business operation falls within the “catalog of special administrative measures” to be issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

### **Impact of the Draft Foreign Investment Law on VIE**

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. As far as the new VIE structures operating in industry sectors that are in the Catalog of Restrictions are concerned, if the ultimate controlling person(s) of a domestic enterprise under the VIE structure is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens), such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may

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be considered as legitimate. Conversely, if ultimate controlling person(s) is/are of foreign nationalities, such domestic enterprise may be treated as a foreign investor or FIE, and therefore the operation of such domestic enterprise through VIE structures without obtaining necessary permission may be considered as illegal.

Neither the Draft Foreign Investment Law nor its accompanying explanatory notes (the “**Explanatory Notes**”) provides a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective. However, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling within the “catalog of special administrative measures”:

- (i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;
- (ii) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and
- (iii) requiring them to apply to the competent authority for permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, “making a filing” is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, whilst for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft Foreign Investment Law or the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation.

Where foreign investors and FIEs circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalog of Prohibitions, or make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

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If foreign investors make investments in the sectors specified in the Catalog of Prohibitions or the Catalog of Restrictions without obtaining necessary permission, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government of the PRC at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or in a sum not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of failing to perform on schedule or evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government of the PRC at the place where the investments are made shall order them to make rectifications within a prescribed time limit. If they fail to make rectifications within the prescribed time limit or the circumstances are serious, such competent authorities shall impose a fine of not less than RMB50,000 but not more than RMB500,000 or in a sum not more than 5% of the investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or FIEs and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

### **Status of promulgation of the Draft Foreign Investment Law**

As of the Latest Practicable Date, there was no certainty whether, or timeline when, the Draft Foreign Investment Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Furthermore, the MOFCOM has not issued any definite rules or regulations to govern existing contractual arrangements.

### **Potential impact of the Draft Foreign Investment Law on our Company**

#### *Whether our Company is controlled by PRC entities and/or citizens*

Our Company is under the indirect control of Tencent. See the section headed “History, Reorganization and Corporate Structure” in this document for further details of the interests of Tencent in our Company.

To the best of our knowledge, Tencent was indirectly held as to approximately 33.17% by Naspers Limited, being the single largest shareholder of Tencent as of the Latest Practicable Date. Naspers Limited is a public company listed on the London Stock Exchange and the Johannesburg Stock Exchange which was, according to the integrated annual report of Naspers Limited for the year ended March 31, 2017, held as to approximately 13.97% by Public Investment Corporation of South

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Africa as of March 31, 2017. The remaining 86.03% was held by the other shareholders whose information was not available in the integrated annual report. In view of the shareholding structure of Tencent to the best of our knowledge, we may not be able to fall clearly within the definition of “control” under the Draft Foreign Investment Law in its current form. It is therefore uncertain that we could demonstrate that we are “controlled” by PRC entities and/or citizens if the Draft Foreign Investment Law is enacted in its current form.

### *Whether online literature business is on the “catalog of special administrative measures” to be issued by the State Council*

If the operation of our online literature business is not on the “catalog of special administrative measures” and we can legally operate such business under PRC Laws, our WFOEs will exercise the call option under the Exclusive Option Agreements to acquire the equity interest of our Consolidated Affiliated Entities and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of our online literature business is on the “catalog of special administrative measures”, depending on the definition of “control” that may be adopted in the foreign investment law as finally enacted and the treatment of VIE structures existing before the new foreign investment law becoming effective, the Contractual Arrangements may be regarded as prohibited or restricted foreign investment and therefore may be considered as invalid and illegal. As a result, we will not be able to operate our online literature business through the Contractual Arrangements and would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. As such, the financial results of those entities would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

### **Sustainability of our business**

If the new foreign investment law as finally promulgated and the “catalog of special administrative measures” as finally issued mandate further actions for us to retain the Contractual Arrangements, we will take all reasonable measures and actions to comply with the foreign investment law then in force and to minimize the adverse effect of such laws on our Company. However, there is no assurance that we can fully comply with such law. In the worst case scenario, we will not be able to operate our online literature business through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Consolidated Affiliated Entities. In such case, the Stock Exchange may also consider our Company to be no longer suitable for listing on the Stock Exchange and delist our Shares. See the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document for details.

Nevertheless, considering that a number of existing entities are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant authorities will

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## **CONTRACTUAL ARRANGEMENTS**

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take retrospective effect to require the relevant enterprises to remove the contractual arrangements. Our PRC Legal Advisor believes that the PRC government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice.

Our Directors undertake that our Company will, to the extent that our Company would be required to announce such information pursuant to Part XIVA of the SFO after the Listing, timely announce (i) any updates or material changes to the Draft Foreign Investment Law and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by our Company to comply with the law (supported by advice from our PRC Legal Advisor), as well as its impact on our business operation and financial position.

### **DECISION ON AMENDING FOUR INBOUND INVESTMENT LAWS**

On September 3, 2016, the Standing Committee of the National People's Congress of the PRC (全國人大常務委員會) published the Decision of the Standing Committee of the National People's Congress on Revising Four Laws Including the "Law of the People's Republic of China on Wholly Foreign-Owned Enterprises" (《全國人大常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) which came into effect on October 1, 2016 and seeks to revise the current foreign investment legal regime.

### **COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS**

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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### REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

#### Restrictions on Foreign Investment

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “**MII**”, which is the predecessor of MIIT) on February 21, 2003 and amended by the MIIT on December 28, 2015, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》(2016年修訂)), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business, provided such investor is a major one among the foreign investors investing in a value-added telecommunications enterprise in China. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunication business in China.

In July 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**MII Notice**”), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).



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Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (《外商投資產業指導目錄(2017年修訂)》) (the “**Catalog**”), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on June 28, 2017 and became effective on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment. Those categories are: “encouraged”, “restricted”, “prohibited” and all industries not listed under one of these categories are deemed to be “permitted”. According to the Catalog, the Internet information services that the Company currently offers falls within the scope of value-added telecommunications services (except for e-commerce) and Internet cultural businesses (except for music), which are under the “restricted” categories and “prohibited” categories, respectively. Besides, “book editing” is also under the “prohibited” categories as a newly added item.

There is currently no clear guidance as to the definition or interpretation of “book editing” under applicable PRC laws and regulations. However, some assistance as to what services constitute book editing may be gleaned from the following guidelines and practises:-

- (1) Guiding Opinions on Promoting the Integrated Development of Traditional and New Publication (《關於推動傳統出版和新興出版融合發展的指導意見》), promulgated by GAPPRFT and the Ministry of Finance on March 31, 2015, provides, among other things, that two of the key missions for integrated development of traditional and new publications are (i) to innovate in content production and service, including establishing integrated platforms for content production with services such as topic selection and planning, structuralized processing and coordinated editing, and (ii) to strengthen the development of certain leading platforms, including integrating high-quality resources to promote the establishment of national-level platforms for content publishing and delivering, information exchange platforms for publishing products, and online copyrights trading platforms.
- (2) The Regulations on Publication Administration (《出版管理條例》) which was promulgated by the State Council on December 25, 2001 and last amended on February 6, 2016, the Notice by the Administration of Press and Publication on Strengthening and Improving Filing of Important Selected Topics (《新聞出版署關於加強和改進重大選題備案工作的通知》) which was promulgated by the Administration of Press and Publication (the predecessors of GAPP) on March 9, 1999, and the Administrative Provisions on Book Publishing (《圖書出版管理規定》) which was promulgated by GAPP on February 21, 2008 and amended on August 28, 2015, amongst others, provides that where important topics (such as national security or social stability) form part of the annual publishing plan of a book publisher, audio-visual publisher or publisher of electronic publications, this plan shall be examined by the competent provincial level publication administration department and then reported to and recorded by the competent publication administration department of the State Council. No publications involving important topics may be published before they are submitted for the record.

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- (3) The Security System for Book Quality (《圖書質量保障體系》) which was promulgated by the Administration of Press and Publication on June 26, 1997, and the Administrative Provisions on Book Publishing (《圖書出版管理規定》) which was promulgated by GAPP on February 21, 2008 and amended on August 28, 2015, among other things, provide that a book publisher shall adopt management systems (such as the topic demonstration system, book draft three-censoring responsibility system, responsible editor system, responsible proofreading system, book pre-republication censoring system and archival filing system) for drafts, books and materials so as to guarantee the quality of books published. Administrative Provisions on Book Quality (《圖書質量管理規定》), promulgated by GAPP on December 24, 2004, further stipulates the detailed rules for quality management of books.

In light of the above guidelines and administrative provisions, our PRC Legal Adviser advised that ‘book editing’ may include services such as topic selection and planning, content editing, structuralized processing, and design of bookbinding and layout.

### REGULATIONS RELATING TO THE PROVISION OF INTERNET CONTENT SERVICES

#### Restriction on Internet Information Service

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of Internet information services. The Internet Measures classified Internet information services into commercial Internet information services and non-commercial Internet information services and a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license (the “**ICP License**”) for the provision of Internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on July 3, 2017 and became effective on September 1, 2017, regulate a commercial operator of value-added telecommunications services must first obtain an ICP License, from the MIIT or its provincial level counterparts. According to the Administrative Measures for Telecommunications Businesses Operating Licensing, a telecom service operator that has obtained a permit for telecom service operation shall, within the first quarter of the year following the report year, participate in annual inspection, and the MIIT or its provincial level counterparts shall examine thoroughly.

#### Restrictions on Internet Content

The content of the Internet information is also highly regulated in China. On February 16, 2007, the General Administration of Press and Publication (the “**GAPP**”, which is one of the predecessors of GAPPRT) promulgated the Notice of the General Administration of Press and Publication on Strengthening Review Work of Audio-visual Products and Electronic Publication Items and Internet Publication Items (《新聞出版總署關於加強音像製品、電子出版物和網絡出版物審讀工作的通知》), pursuant to which GAPP shall strengthen the review of Internet publication items, including (i) annual topic plan review for those unpublished Internet publication items, (ii) special review and daily review for published Internet publication items; and (iii) regulation of Internet publication content.

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According to the Internet Measures, violators may be subject to penalties, including criminal sanctions, for providing Internet content that: opposes the fundamental principles stated in the PRC Constitution; compromises national security, divulges national secrets, subverts national power or damages national unity; harms national dignity or interest; incites ethnic hatred or racial discrimination or damages inter-ethnic unity; undermines the PRC's religious policy or propagates superstition; disseminates rumors, disturbs social order or disrupts social stability; disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime; insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or is otherwise prohibited by law or administrative regulations. An Internet information service provider may not post or disseminate any content that falls within prohibited categories and must stop providing any such content on their websites. The PRC government may order ICP License holders that violate any of the above-mentioned content restrictions to correct those violations and revoke their ICP Licenses under serious conditions.

Internet information service providers are also required to monitor their websites. Pursuant to the Administrative Measures for Internet Publication Service (《網絡出版服務管理規定》) (the “**Internet Publication Measures**”), which were jointly promulgated by the GAPPRFT and the MIIT on February 4, 2016 and became effective on March 10, 2016, the entities providing Internet publication services shall adopt a system of responsibility for examination of the content of publications, an editor responsibility system, a proofreader responsibility system and other management systems to ensure the quality of its web publications.

### REGULATIONS RELATING TO PUBLICATION

#### Restriction on Internet Publication

On July 6, 2005, the Ministry of Culture, the State Administration of Radio Film and Television (the “**SARFT**”, which is one of the predecessors of GAPPRFT), the GAPP, the CSRC, and the MOFCOM jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》) (the “**Opinion on Canvassing Foreign Investment**”). According to the Opinion on Canvassing Foreign Investment, foreign investors are prohibited from engaging in such business as the Internet publication and offline publication.

Pursuant to the Internet Measures, any engagement in Internet information services related to publication, prior to applying for an operation permit or going through the record-filing formalities, shall be subject to the examination and consent of the relevant competent authorities as required by the laws, administrative regulations and relevant provisions of the PRC.

After the Internet Publication Measures came into effect on March 10, 2016, the Interim Administration Measures on Internet Publication (《互聯網出版管理暫行規定》) jointly promulgated by the GAPP and the MIIT on June 27, 2002 were simultaneously repealed. According to the Internet Publication Measures, the GAPPRFT and its local branches are responsible for the prior approval, supervision and administration of the Internet publication services nationwide, and any Internet

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publication service and Internet publication item, or publication of Internet publication item via the Internet is required to obtain an Internet publishing service license. Pursuant to the Internet Publication Measures, Sino-foreign equity joint ventures, Sino-foreign cooperative ventures and foreign invested entities shall not engage in Internet publication services.

The Internet Publication Measures stipulate precise conditions for entities (except book, audiovisual, electronic, newspaper and periodical publishers) engaging in Internet publication services to meet, including: (i) have definite website domains, intelligent terminal applications and other publishing platforms for engaging in online publishing business; (ii) have a definite scope of Internet publication services; (iii) have technical equipment necessary for engaging in Internet publication services, provided that the relevant servers and storage devices must be located within the territory of the PRC; (iv) have the name and the articles of association for the online publishing service provider, and the name is definite and different from any of those of other publishers; (v) have a legal representative and main responsible person in compliance with the requirements of the PRC, which means that the legal representative must be a Chinese citizen with full civil capacity and permanently residing in the territory of PRC, and that either the legal representative or the main responsible person should have vocational qualifications for technicians engaged in the profession of publishing at or above the intermediate level; (vi) in addition to the legal representative and the main responsible person, have at least eight full-time editorial and publishing employees having technical and vocational qualifications for the profession of publishing and other related professions as approved by the GAPPRFT that can meet the needs within the scope of online publishing services, of which there are at least three employees with professional qualifications at or above the intermediate level; (vii) have a content review system required for engaging in online publishing services; (viii) have a fixed work place; and (ix) other conditions as provided by laws, administrative regulations and the GAPPRFT. The entities providing Internet publication services implement a system of special management shares.

If any entity arbitrarily engages in Internet publication services or arbitrarily launches online games (including online games authorized by foreign copyright owners) without approval, it might be banned by the competent publication administrative department and the administrative department for industry and commerce with statutory authority and a fine up to ten times the illegal operating income may be imposed.

In addition, based on the Internet Publication Measures, an annual verification system shall apply to Internet publishing service providers and shall be carried out once every year. The competent administrative departments for GAPPRFT shall carry out the annual verification of Internet publishing service providers within their respective administrative regions and report relevant information to the GAPPRFT.

On June 14, 2017, the GAPPRFT promulgated Trial Method on Evaluation of Social Benefits of Online Literature Publication Service Units (《網絡文學出版服務單位社會效益評估試行辦法》) (the “**Trial Method**”), which became effective on July 1, 2017. The Trial Method requires self-evaluation reports to be submitted by online literature publication service units to the local publication administrative bodies by the end of January of every calendar year and evaluation of the online literature publication service units by the local publication administrative bodies. The local publication administrative bodies will then submit their summaries of evaluation results to the

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GAPPRFT by the end of March of every calendar year. The Trial Method also provides specific details for evaluation content. Under the Trial Method, if the online literature publication service unit fails to pass the evaluation, the local publication administrative bodies at provincial level may issue a notice of criticism, conduct disciplinary interview with its principal, and disqualify it for participation in appraisal of merit and award; if the online literature publication service unit fails to pass the evaluation for two consecutive years, the GARRPFT may issue a notice of criticism, conduct disciplinary interview with its principal and order it to make rectification . In the event that there exists illegal activities, the online literature publication service unit will be penalized pursuant to the provisions of the Regulations on Publication Administration (《出版管理條例》) and the Internet Publication Measures.

### Restriction on Offline Distribution

The Administrative Provisions on the Publication Market (《出版物市場管理規定》) (the “**New Administrative Provisions**”) were jointly issued by the GAPPRFT and MOFCOM on May 31, 2016, and became effective on June 1, 2016. The New Administrative Provisions, which superseded the previous Administrative Provisions on the Publication Market promulgated on March 25, 2011, regulates the activities of publication distribution, including publication wholesale or retail activities, which shall be carried with the publication operation license. Without licensing, such entity or individual may be ordered to cease illegal acts by the competent administrative department of publication, be given a warning, and be concurrently subject to a fine.

On June 28, 2012, the GAPP promulgated the Implementing Rules of the General Administration of Press and Publication for Supporting Private Capital’s Participation in Publishing Operation Activities (《新聞出版總署關於支持民間資本參與出版經營活動的實施細則》), pursuant to which, GAPPRFT, among other things, (i) continuously supports private capital to invest in the establishment of enterprises of publication issuance, wholesale, retailing and chain operation to engage in the issuance and operation activities of publication products, such as books, newspaper, periodicals, video and audio products and electronic publications; and (ii) continuously supports private capital to invest in the establishment of Internet digital publishing enterprises, including online game publishing, mobile publishing, e-book publishing and content software development to engage in publishing and operation activities.

### REGULATIONS RELATING TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

In addition to the Telecommunications Regulations and other regulations above, mobile Internet applications (the “**APPs**”) and the Internet application store (the “**APP Store**”) are specially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “**APP Provisions**”), which were promulgated by the CAC on June 28, 2016 and became effective on August 1, 2016. The APP Provisions regulate the APP information service providers and the APP Store service providers and the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively.

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The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations, including real-name system, protection of users' information, examination and management of information content, etc.

The APP Store service providers shall file a record with the related local offices of cyberspace administration within 30 days after such services have been rolled out online for operation and they shall fulfill the administrative responsibilities over the application providers. For any application provider who violates the aforementioned provisions, the APP Store service providers shall take such measures as warning, suspending the release or withdrawing the applications as the case may be, keep records and report such violation to the relevant competent authorities. In addition, the APP Store service providers shall enter into the service agreements with the APP information service providers, clarifying the rights and obligations of both parties.

### REGULATIONS RELATING TO INTERNET AUDIO-VISUAL PROGRAM SERVICES

According to the Certain Decisions on the Entry of the Non-state-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》) promulgated by the State Council on April 13, 2005 and the Opinion on Canvassing Foreign Investment, non-state-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via an information network.

On February 17, 2011, the Ministry of Culture promulgated the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Provisions**”). According to the Internet Culture Provisions, Internet audio-visual program services are included in Internet culture operation, and Internet cultural entities are classified into operational Internet cultural entities and non-operational Internet cultural entities. Operational Internet cultural entities shall file an application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

According to the Administrative Regulations on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》) (the “**Internet Audio-Visual Program Regulations**”), promulgated by the SARFT and the MIIT on December 20, 2007 and amended on August 28, 2015, an Internet audio-visual program service provider shall obtain the AVSP issued by the SARFT or complete certain registration procedures with SARFT in order to engage in Internet audio-visual program service. Internet audio-visual program service refers to activities of making, redacting and integrating audio-visual programs, providing them to the general public via Internet, and providing service for other people to upload and spread audio-visual programs.

### REGULATIONS RELATING TO ONLINE GAME OPERATION

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the Ministry of Culture, the SARFT and the GAPP (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission



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Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the GAPPRFT will be responsible for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the Ministry of Culture.

The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院<“三定”規定>和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (the “**GAPP Notice**”), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

In addition, according to the Internet Publication Measures, before publishing an online game, an online publishing service provider shall file an application with the competent administrative department for GAPPRFT of the province, autonomous region or municipality in the place where it is located and the application, if approved, shall be submitted to the GAPPRFT for approval.

Online game operations are also included in Internet culture operation and the Internet Culture Provisions shall govern online game operations as well. In addition, the Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”), issued by the Ministry of Culture and which took effect on August 1, 2010, regulate a broad range of activities related to the online game business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Game Measures provide that any entity that is engaged in online game operations must obtain an Online culture operating permit, and require the content of an imported online game to be examined and approved by the Ministry of Culture prior to the launch of the game and the content of a domestic online game must be filed within 30 days of its launch with the Ministry of Culture. The Online Game Measures also request online game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. The Notice of the Ministry of Culture on the Implementation of the Interim Measure for the Administration of Online Games (《文化部關於貫徹實施<網絡遊戲管理暫行辦法>的通知》) issued by the Ministry of Culture and which took effect in August 2010 specifies entities regulated by the Online Game Measures and procedures related to the review of the Ministry of Culture of the content of online games, emphasizes the importance of protecting minors playing online games and requests online game operators to promote real-name registration by their players.



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The Notice on the Reinforcement of the Administration of Internet Cafés and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Internet Cafés Notice**”) jointly issued by the Ministry of Culture, the PBOC and other governmental authorities on February 15, 2007 with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, places strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Virtual Currency Notice**”) jointly issued by the Ministry of Culture and the MOFCOM on June 4, 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are also not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players’ cash or virtual money.

On May 24, 2016, the GAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》), which became effective as of July 1, 2016. The Notice provides that game publishing service entities shall be responsible for examining the contents of their games and applying for game publication numbers. To apply for publication of domestically developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities shall submit the required documents to provincial publication administrative departments at least 20 business days prior to the expected date of online publication (public beta). Entities applying for publication of domestically-developed mobile games that are not included in abovementioned category shall go through stricter procedures, including submitting manager accounts for content review and testing accounts for game anti-indulgence system. Game publishing service entities must set up a specific page to display the information approved by the SARFT, including the copyright owner of the game, publishing service entity, approval number, publication number and others, and shall take charge of examining and recording daily updates of the game. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of this Notice, other requirements apply to maintain the publication and operation of such games online, relevant approval procedures would have to be implemented by the game publishing service entities and enterprises in coordination with the provincial publication administrative departments before December 31, 2016 as required by this Notice. Otherwise, these mobile games shall cease to be published or operated online.

On December 1, 2016, the Ministry of Culture promulgated the Circular of the Ministry of Culture on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》), which became effective on May 1, 2017. The Circular sets requirements in relation to the following aspects of online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual props of online games; (iii) strengthening the protection of the rights and interests of online game users; (iv) strengthening the interim and ex post supervision of online game operation; and (v) seriously investigating and punishing illegal operating activities.

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### REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

Internet content in China is regulated and restricted from a state security standpoint. The SCNPC enacted the Decisions on the Maintenance of Internet Security (《維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on January 8, 2011 and prohibit using the Internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the PRC government may revoke its ICP License and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of PRC. Their purchase of network products and services that may affect national security shall be subject to national cybersecurity review. On May 2, 2017, the CAC issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on June 1, 2017, to provide for more detailed rules regarding cybersecurity review requirements.

### REGULATIONS RELATING TO PRIVACY PROTECTION

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) (the “**Internet Protection Measures**”) which took effect on March 1, 2006. The Internet Protection Measures require Internet service providers to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records.

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Internet services providers are prohibited from unauthorized disclosure of users' information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users' correspondences.

In December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users' personal information in the provision of telecommunication services and Internet information services in China and the personal information includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunication business operators and Internet service providers are required to constitute their own rules for the collecting and use of users' information and they cannot collect or use of user's information without users' consent. Telecommunication business operators and Internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and Internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and Internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. The Provisions stipulate that without the consent of users, Internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as "personal information of users"), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. The Provisions also requires that Internet information service providers shall properly keep the personal information of users; if the preserved personal information of users is divulged or may possibly be divulged, Internet information service providers shall immediately take remedial measures; where such incident causes or may cause serious consequences, they shall immediately report the same to the telecommunications administration authorities that grant them with the Internet information service license or filing and cooperate in the investigation and disposal carried out by relevant departments. Failure to comply with such requirements may result in a fine between RMB10,000 and RMB30,000 and an announcement to the public.

On May 9, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) (the "**Interpretations**"), effective from June 1, 2017. The Interpretations clarify several concepts regarding the crime of "infringement of citizens' personal

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information” stipulated by Article 253A of the Criminal Law of the People’s Republic of China (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### The Copyright Law

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October, 1992, the Universal Copyright Convention in October, 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the PRC (Revised in 2010) (《中華人民共和國著作權法》(2010年修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

Under the Regulation on Protection of the Right to Network Dissemination of Information (《信息網絡傳播權保護條例》) that took effect on July 1, 2006 and was amended on January 30, 2013, it is further provided that an Internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the Internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the Internet information service provider fails to take such measures upon receipt of the copyright holder’s notice of infringement. The Internet information service provider may be exempted from indemnification liabilities under the following circumstances:

- (i) any Internet information service provider that provides automatic Internet access service upon instructions from its users or provides automatic transmission service for works, performances and audio/visual products provided by its users is not required to assume indemnification liabilities if (a) it has not chosen or altered the transmitted works, performance and audio/visual products and (b) it provides such works, performances and audio/visual products to the designated users and prevents any person other than such designated users from obtaining access;
- (ii) any Internet information service provider that, for the sake of improving network transmission efficiency, automatically stores and provides to its own users the relevant works, performances and audio/visual products obtained from any other Internet information service providers, is not required to assume the indemnification liabilities if (a) it has not altered any of the works, performances or audio/visual products that are

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automatically stored; (b) it has not affected such original Internet information service provider in holding the information about where the users obtain the relevant works, performances and audio/visual products; and (c) when the original Internet information service provider revises, deletes or shields the works, performances and audio/visual products, it will automatically revise, delete or shield the same;

- (iii) any Internet information service provider that provides its users with information memory space for such users to provide the works, performances and audio/visual products to the general public via an informational network is not required to assume the indemnification liabilities if (a) it clearly indicates that the information memory space is provided to the users and publicizes its own name, contact person and web address; (b) it has not altered the works, performances and audio/visual products that are provided by the users; (c) it is not aware of or has no justified reason to know that the works, performances and audio/visual products provided by the users infringe upon the copyrights of others; (d) it has not directly derived any economic benefit from the providing of the works, performances and audio/visual products by its users; and (e) after receiving a notice from the copyright holder, it promptly deletes the allegedly infringing works, performances and audio/visual products pursuant to the regulation;
- (iv) an Internet information service provider that provides its users with search engine or link services should not be required to assume the indemnification liabilities if, after receiving a notice from the copyright holder, it disconnects the link to the allegedly infringing works, performances and audio/visual products pursuant to the regulation, unless it is aware of or should reasonably have known the infringement.

The Circular on Strengthening the Copyright Administration of Internet Literary Works (《關於加強網絡文學作品版權管理的通知》) promulgated by National Copyright Administration (the “NCA”) on November 4, 2016 and effective from November 4, 2016 provides that Internet service providers who provide literary works through information networks and render relevant network services shall strengthen the copyright supervision and administration, establish a sound infringing works handling mechanism, and fulfil the obligation to protect the copyright of Internet literary works according to the law, shall fulfil the obligation to review the copyright of literary works disseminated and exercise their duty of care according to the law. Except as otherwise provided by laws and regulations, without the permission of right holders, the dissemination of their literary works shall be prohibited and shall establish a copyright complaint mechanism, actively accept complaints from right holders, and resolve the legitimate demands of right holders in a timely manner according to the law.

Measures on Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》), that were promulgated by the MII and NCA and took effect on May 30, 2005, provided that an Internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through Internet infringes upon his/its copyright and preserve the copyright owner’s notice for 6 months. Where an Internet information service provider clearly knows an Internet content provider’s tortuous act of infringing upon another’s copyright through Internet, or fails to take measures to remove relevant contents after receipt of the copyright owner’s notice although it does not know it

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clearly, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

The Notice on Regulating Copyright Order of Internet Reproduction (《關於規範網絡轉載版權秩序的通知》) issued by the NCA in 2015 includes the following four major points: (i) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition of news, clarify statutory licenses that are not applicable to internet copyrights and prohibit the distortion of title and work intent; (ii) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (iii) encourage the press and internet media to actively carry out copyright cooperation; and (iv) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”), promulgated by the National Copyright Administration on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China (the “**CPCC**”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013) (《計算機軟件保護條例》(2013年修訂)).

Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) provide that web users or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

The Notice on Launching “*Jian Wang 2016*” Special Actions Against Internet Infringement and Privacy (《關於開展打擊網絡侵權盜版“劍網2016”專項行動的通知》), jointly issued by NCA, MIIT, the Ministry of Public Security and CAC in 2016 includes the following: the punishment of (i) the unauthorized distribution of online literature, news, and films, and protecting the legitimate rights of the copyright owners, and (ii) the distribution of pirated content through mobile apps, e-commerce platforms, and online advertising platforms, in order to maintain the order of the Internet copyright environment; and the copyright order of online music, online cloud storage space, and online distribution of news will be further standardized to create a clean Internet environment for copyright.



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### The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 (Revised in 2014) (《中華人民共和國商標法實施條例》(2014年修訂)). In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### Domain Names

The MII promulgated the Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》) (the “**Domain Name Measures**”) on November 5, 2004. According to the Domain Name Measures, domain name owners are required to register their domain names and the MII is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure.

### The Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008年修訂)) promulgated by the SCNPC, and its Implementation Rules (Revised in 2010) (《中華人民共和國專利法實施細則》(2010年修訂)) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid



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for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### REGULATIONS RELATING TO ADVERTISEMENT

The Advertisement Law (《中華人民共和國廣告法》), which was promulgated by the SCNPC on October 27, 1994 and amended on April 24, 2015, requires advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations and the content of the advertisement shall not contain anything related to cigarette. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been duly performed and that the relevant approval has been obtained. Without prior consent or request, the advertisers, advertising operators and advertising distributors shall not deliver advertisement to any person’s accommodation or transportation. If the advertisers, advertising operators and advertising distributors display any pop-up advertisement, they shall show the close button clearly to make sure that the viewers can close the advertisement in one-click. Violations of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. For serious violations, the SAIC or its local branches may order the violator to terminate its advertising operations or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liabilities if they infringe on the legal rights and interests of third parties.

On July 4, 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (《互聯網廣告管理暫行辦法》) (the “**Internet Advertisement Measures**”) and the Internet Advertisement Measures became effective on September 1, 2016. The Internet Advertisement Measures regulates any advertisement published on the Internet, including but not limited to, through websites, webpage and APPs, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors.

According to the Internet Advertisement Measures, online advertisements in relation to certain categories of good and services (*e.g.* prescription drugs and tobacco) are expressly prohibited and certain advertisements (*e.g.* medical advertisements and advertisements for agricultural chemicals, veterinary drugs and health foods) are only permitted if it has been pre-approved by the relevant authorities. Furthermore, the Internet Advertisement Measures provide detailed guidelines and requirements for the advertisers, advertising operators and advertising publishers. Internet advertisers, advertising operators and/or advertisement publishers must enter into written contracts in conducting Internet advertisement business and activities. Internet advertisers are responsible for the authenticity of the content of advertisements and may publish advertisements by setting up a website or an Internet medium legally used by them, or by entrusting Internet advertising operators or advertising publishers to publish advertisements. Internet information service providers must stop any person from using

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their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the Internet information service provider merely provides information services and is not involved in the Internet advertisement businesses. The following activities are prohibited under the Internet Advertisement Measures: (i) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (ii) using network access, network equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; or (iii) harming the interests of others by using fake statistics or traffic data. The industry and commerce administrative department is the relevant local administrative authority that supervises and enforces punishments for any illegal act in Internet advertising. Any violation of the Internet Advertisement Measures may result in fines, prohibition of publishing advertisements for a period of time or withdrawal of business licenses, etc.

### REGULATIONS RELATING TO FOREIGN EXCHANGE

#### General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》), promulgated on January 29, 1996 and last amended on August 5, 2008, and various regulations issued by the State Administration of Foreign Exchange (the “SAFE”) and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “SAFE Notice No. 59”) promulgated by SAFE on November 19, 2012, that became effective on December 17, 2012 and was further amended on May 4, 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities and the

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foreign capital and foreign exchange registration formalities required for the foreign investors to acquire the equities and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party, and further improve the administration on exchange settlement of foreign exchange capital of foreign invested entities.

On February 13, 2015, SAFE promulgated the Notice on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 13**”) effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

The Notice of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Notice No. 19**”) was promulgated on March 30, 2015 and became effective on June 1, 2015. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Notice No. 16**”) was promulgated and became effective on June 9, 2016. According to the SAFE Notice No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

### REGULATIONS RELATING TO OFFSHORE INVESTMENT

On October 21, 2005, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing

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Back in China by Domestic Residents (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which became effective on November 1, 2005 (the “**Circular No. 75**”). The notice requires PRC domestic resident natural persons to register or file with the local SAFE branch in the following circumstances: (i) before establishing or controlling any company outside the PRC for the purpose of capital financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On July 4, 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 37**”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular No. 37 supersedes the Circular No. 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according to the procedural guideline as attached to the Circular No. 37, the principle of review has been changed to “the domestic individual resident is only register the SPV directly established or controlled (first level)”. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the Circular No. 37, which became effective on July 4, 2014 as an attachment to Circular No. 37.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who hold any shares in the company from time to time are required to register with the SAFE in connection with their investments in the company.

### REGULATIONS RELATING TO STOCK INCENTIVE PLANS

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “**Stock Option Rules**”), individuals participating in any stock incentive plan of any overseas publicly listed company who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, subject to a few exceptions are required to register with SAFE or its local branches and complete certain other procedures through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock

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incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives (《國家稅務總局關於股權激勵有關個人所得稅問題的通知》) promulgated by the SAT and effective from August 24, 2009, listed companies and their domestic organizations shall, according to the individual income tax calculation methods for "wage and salary income" and stock option income, lawfully withhold and pay individual income tax on such income.

### REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》), as amended in 2005 and in 2013, the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) promulgated in 1986 and last amended in 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and last amended in 2014, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last amended in 2016 and its implementation regulations promulgated in 1995 and amended in 2014. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

### REGULATIONS RELATING TO LOANS BETWEEN FOREIGN COMPANY AND ITS PRC SUBSIDIARIES

A loan made by foreign investors as shareholders in a foreign invested enterprise is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) promulgated by the State Council, the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》) promulgated by the SAFE, NDRC and the Ministry of Finance and executed on March 1, 2003, the Statistical Monitoring of Foreign Debts Tentative Provisions (《外債統計監測暫行規定》) promulgated by the SAFE on August 27, 1987, the Detailed Rules for the Implementation



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of Provisional Regulations on Statistics and Supervision of External Debt (《外債統計監測實施細則》) effective on January 1, 1998, the Regulations on Foreign Exchange Sale, Purchase and Payment (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on 1996 and the Administrative Measures for Registration of Foreign Debts (《外債登記管理辦法》) promulgated by SAFE on April 28, 2013.

Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches. According to the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》), any interest payments, if any, on the loans are subject to a 10% withholding tax unless any such foreign shareholder's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to the Interim Provisions of the State Administration for Industry and Commerce on the Ratio of the Registered Capital to the Total Investment of a Sino-Foreign Equity Joint Venture Enterprise (《國家工商行政管理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定》), promulgated by SAIC on February 17, 1987, if the amount of foreign exchange debt of a foreign invested enterprise exceeds its borrowing limits, the enterprise is required to apply to the relevant PRC regulatory authorities to increase the total investment amount and registered capital to allow the excess foreign exchange debt to be registered with SAFE.

If we provide funding to our the foreign invested enterprise through shareholder loans and if such loans exceed its borrowing limits, we will need to increase our PRC subsidiary's approved registered capital and total investment amount, which requires approval from or filing by the MOFCOM or its local counterparts. In addition, we will also need to register such loans with SAFE.

### REGULATIONS RELATING TO WHOLLY FOREIGN-OWNED ENTERPRISE

Under the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) promulgated in 1986 and last amended in 2016, and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic China (《中華人民共和國外資企業法實施細則》), which was promulgated in 1990 and was last amended on February 19, 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC (“MOFTEC”, currently known as the MOFCOM) before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a wholly foreign-owned enterprise is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to, and collect the business license from the administrative authority for industry and commerce.

On September 3, 2016, the Decision of the Standing Committee of the National People's Congress on Revising Four Laws including the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) (the “**Decision on Revision of Four Laws**”) was promulgated and became effective on October 1, 2016. On October 8, 2016, the MOFCOM published the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”) and became effective on the same

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date. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) and the Law of the People's Republic of China on the Protection of the Investments of Taiwan Compatriots (《中華人民共和國台灣同胞投資保護法》) and the relevant formality regime for the incorporation and change of foreign-invested enterprises, whereby if the incorporation or change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve special access administrative measures prescribed by the PRC government (the “**Negative List**”), the examination and approval process is now being replaced by the record-filing administration process. According to the Filings Measures, where the incorporation of foreign-invested enterprises do not fall within the Negative List, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business license, or within 30 days after the issuance of a business license. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises' property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On October 8, 2016, the announcement of the NDRC and the MOFCOM [2016] No. 22 (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) was published and specified that the Negative List shall be in line with the Catalog. On July 30, 2017, the MOFCOM amended the Filings Measures, which took effective on the same date. According to the amended Filings Measures, a record-filing administration process shall apply in the event that foreign investors (i) merge and acquire non-foreign-invested enterprises within PRC, and (ii) undertake strategic investment into domestic listed companies, provided that it does not involve special access administrative measures or merge and acquisition with related party.

Since the current business operations of Shanghai Shengting, Shengyun Information Technology and Shanghai Yuechao, as the foreign-invested enterprises within the Group, do not fall within the scope of the Negative List, the Filings Measures shall apply and major changes of Shanghai Shengting, Shengyun Information Technology and Shanghai Yuechao are subject to record-filing procedure under the Filings Measures. Based on the currently effective PRC laws and current business operation of the Group, our PRC Legal Advisor is of the view that the aforementioned amendments will not have material adverse effect on the Group's business operations.

### REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested



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enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

### REGULATIONS RELATING TO THE ANTI-MONOPOLY

On August 30, 2007, the SCNPC adopted the PRC Anti-Monopoly Law, (the "AML"), which became effective on August 1, 2008, which provide the regulatory framework for the PRC anti-monopoly. Under the AML, the prohibited monopolistic acts include monopolistic agreements, abuse of a dominant market position and concentration of businesses that may have the effect to eliminate or restrict competition.

Pursuant to the AML, a business operator that possesses a dominant market position is prohibited from abusing its dominant market position, including conducting the following acts: (i) selling commodities at unfairly high prices or buying commodities at unfairly low prices; (ii) without justifiable reasons, selling commodities at prices below cost; (iii) without justifiable reasons, refusing to enter into transactions with their trading counterparts; (iv) without justifiable reasons, allowing trading counterparts to make transactions exclusively with itself or with the business operators designated by it; (v) without justifiable reasons, tying commodities or imposing unreasonable trading conditions to transactions; (vi) without justifiable reasons, applying differential prices and other transaction terms among their trading counterparts who are on an equal footing; and (vii) other acts determined as abuse of dominant market position by the relevant governmental authorities. If a business operator that possesses a dominant market position is deemed to abuse its dominant position, the SAIC and other competent PRC regulatory authorities may, at their discretion, order such business operator to cease illegal acts, confiscate any illegal gains and even impose a fine of 1% up to 10% of its revenues in the preceding financial year.

We may be deemed to have a dominant market position in the relevant market by the relevant PRC regulatory authorities due to our current market share. If we are deemed to have a dominant market position and the relevant PRC regulatory authority establishes that we have abused such dominant market position, the PRC regulatory authority may, at its discretion, confiscate any illegal gains and impose a fine of 1% to 10% of our revenues arising from preceding financial year.

In addition, pursuant to the AML and the relevant regulations, when a concentration of undertakings occurs and reaches any of the following thresholds, the undertakings concerned shall file a prior notification with the MOFCOM: (i) the combined worldwide turnover of all the undertakings concerned in the preceding financial year exceeds RMB10 billion, and the nationwide turnover within the PRC of each of at least two of the undertakings concerned in the preceding financial year exceeds RMB400 million; or (ii) the combined nationwide turnover within the PRC of all the undertakings concerned in the preceding financial year exceeds RMB2 billion, and the nationwide turnover within China of each of at least two of the undertakings concerned in the preceding financial year exceeds RMB400 million. "Concentration of undertakings" means any of the following: (i) merger of

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undertakings; (ii) acquisition of control over another undertaking by acquiring equity or assets; or (iii) acquisition of control over, or exercising decisive influence on, another undertaking by contract or by any other means. If such prior notification is not obtained, the MOFCOM may order the concentration to cease its operations, dispose of shares or assets, transfer the business of the concentration within a time limit, take any other necessary measures to restore the situation as it was before the concentration, and may impose a fine of up to RMB500,000.

Complying with the requirements of the AML and the relevant regulations could make completion of our future acquisitions time consuming, complex and difficult to complete. There are uncertainties as to whether we will be able to obtain the preclearance of the MOFCOM for any acquisition that would trigger the AML.

### REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

#### The Labor Contract Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner. In addition, according to the Labor Contract Law: (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date of employment and if such period exceeds one year, the parties are deemed to have entered into a labor contract with an “unfixed term”; (ii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee’s breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) if an employer pays for an employee professional training, the labor contract may specify a term of service. When the employee breach term of service, the amount of compensation may not exceed the training expenses; (vii) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of more than RMB500 but less than RMB2,000 per employee; and (viii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within ascertain period by the labor administration authorities.

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According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995 and amended on August 27, 2009, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

On December 28, 2012 the Labor Contract Law (《勞動合同法》) was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to the amended Labor Contract Law, (i) it is strongly emphasized that dispatched contract workers shall be entitled to equal pay for equal work as an employee of an employer; (ii) dispatched contract workers may only be engaged to perform temporary, auxiliary or substitute works; and (iii) an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees and the specific percentage shall be prescribed by the Ministry of Human Resources and Social Security. Under the law, “temporary work” means a position with a term of less than six (6) months; “auxiliary work” means a non-core business position that provides services for the core business of the employer; and “substitute work” means a position that can be temporarily replaced with a dispatched contract worker for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers); and (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees at the time when the Interim Provisions on Labor Dispatch became effective, the employer must formulate a plan to reduce the number of its dispatched contract workers to comply with the aforesaid cap requirement prior to March 1, 2016. In addition, such plan shall be filed with the local administrative authority of human resources and social security. Nevertheless, the Interim Provisions on Labor Dispatch do not invalidate the labor contracts and dispatch agreements entered into prior to December 28, 2012 and such labor contracts and dispatch agreements may continue to be performed until their respective dates of expiration. The employer may also not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of the total number of its employees. In case of violation, the labor administrative department shall order rectification within a specified period of time; if the situation is not rectified within the specified period, a fine from RMB5,000 to RMB10,000 for each person shall be imposed, and the staffing company’s business license shall be revoked. If a placed worker suffers any harm or loss caused by the receiving entity, the staffing company and the receiving entity shall be jointly and severally liable for damages.

### **Social Insurance and Housing Fund**

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on July 16, 1997,

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the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

### REGULATIONS RELATING TO TAX

#### Enterprise Income Tax

On March 16, 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which was amended on February 24, 2017, and on December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the “**EIT Law**”). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外注冊中資控股企業依據實際管理機構標準實施居民企業認定有關問題的通知》) promulgated by the SAT on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

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The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises”, and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice No. 81**”) issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》), which was issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (《關於認定稅收協定中“受益所有人”的公告》), which was issued on June 29, 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on January 1, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the “website for the administration of accreditation of high-tech enterprises”. Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be canceled as of the year of change in the name or any other condition.

The Notice on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通



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知》), which was promulgated by the Ministry of Finance and the SAT and effected on January 1, 2011 and the Notice on Issues Relating to the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) promulgated by the Ministry of Finance, the SAT, the NDRC and the MIIT on May 4, 2016, provide that, upon certification, newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Continuing Preferential Policies of Value-added Tax and Business Tax on Publicity of Culture (《財政部、國家稅務總局關於延續宣傳文化增值稅和營業稅優惠政策的通知》) promulgated by SAT and Ministry of Finance on December 25, 2013, and effective on January 1, 2013, from January 1, 2013 to December 31, 2017, the policy of 100% or 50% VAT refund after collection shall be implemented on certain publications at the publishing stage and the VAT on books at wholesale and retail stages shall be exempted.

### Value-added Tax and Business Tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and subsequently amended on February 6, 2016. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則》(2011年修訂)) were promulgated by the Ministry of Finance and the SAT on December 15, 2008 which were subsequently amended on October 28, 2011 and came into effect on November 1, 2011 (collectively, the “VAT Law”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

Pursuant to The Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on February 19, 1997 and November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay a business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation. On January 1, 2012, the State Council officially launched a pilot VAT reform program (the “Pilot Program”), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of the business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “Pilot Industries”) in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong province, and nationwide to the

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designated pilot industry. According to the Notice Regarding Including the Telecommunications Sector under the Pilot Program of Replacing Business Tax with Value-Added Tax (《關於將電信業納入營業稅改徵增值稅試點的通知》), which was promulgated on April 29, 2014 and became effective on June 1, 2014, the entities and individuals providing telecommunications services within the territory of PRC shall pay VAT instead of business tax. The Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), which was promulgated on March 23, 2016, became effective on May 1, 2016, amended on July 11, 2017, and became effective retroactively as of July 1, 2017, and superseded the Notice Regarding the Including Telecommunications Sector under the Pilot Program of Replacing Business Tax with Value-Added Tax on the same date set out that it collected value-added tax in lieu of business tax in all regions and industries.

### **Dividend Withholding Tax**

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors who do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice No. 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on How to Interpret and Recognize the “Beneficial Owner” in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》), issued on October 27, 2009 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### **DRAFT FOREIGN INVESTMENT LAW**

On January 2015, the MOFCOM published the Draft Foreign Investment Law and accompanying explanatory notes which contain important information about the Draft Foreign Investment Law, including its drafting philosophy and principles, main content, plans to transit to the new legal regime and treatment of business in the PRC controlled by foreign invested enterprises. For further details, see the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” in this document.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Tencent, through its wholly-owned subsidiaries (THL A13, Tencent Growthfund and Qinghai Lake) indirectly controlled in aggregate 61.95% of our issued Shares. Immediately after the completion of the Global Offering, Tencent, through such wholly-owned subsidiaries, will indirectly control in aggregate 52.66% of our issued Shares. Accordingly, our Company will remain as a subsidiary of Tencent after the Listing, and Tencent, THL A13, Tencent Growthfund and Qinghai Lake will constitute a group of Controlling Shareholders of our Company.

Tencent is a limited liability company organized and existing in the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange since 2004 with stock code 700.

The Tencent Group principally provides value-added services and online advertising services to users mainly in the PRC. The Tencent Group's value-added services business mainly consists of community value-added services and applications across various Internet, mobile platforms and provision of online/mobile games. The Tencent Group offers a diversified game portfolio ranging from PC client games to PC web games and mobile games. The Tencent Group is also a leading provider of social network services in the PRC, including *Qzone*, *QQ*, *Weixin* (and, for the overseas market, *WeChat*). The Tencent Group's online advertising services primarily comprise brand display advertising and performance display advertising. THL A13, Tencent Growthfund and Qinghai Lake are special purpose vehicles without substantial business operations.

### Clear delineation of business

There is a clear delineation between our businesses and those of the Retained Tencent Group. Our businesses mainly focus on the distribution and monetization of literary content originated from the operation of online literature platforms through connecting writers, readers and content adaptation partners. On the other hand, the Retained Tencent Group offers integrated Internet services through the operation of social and communication platforms and media platforms with the aim to connecting its platforms to a broad range of online and offline services and entertainment-oriented contents.

Our businesses and those of the Retained Tencent Group have distinct differences in terms of business focus and strategy and our Directors (including our independent non-executive Directors) do not believe that any direct or indirect competition is or is likely to be material in nature. A summary of these differences is set out below:

#### *Online Paid Reading Business*

Online paid reading business is our core business through which we connect writers (who originate and contribute literary content) and readers (who pay to read the writers' literary content). The Retained Tencent Group does not conduct any business of online paid reading of literary works.

We expect to establish a channel on our own platform primarily for the distribution of comic and animation adapted from our literary works in the second half of 2017, which represents add-on functionality to our existing platform whereby readers can obtain access to comic and animation either free of charge or at a fee depending on the relevant comic or animation. The Retained Tencent Group,

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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through *Tencent Comic* (騰訊動漫), currently offers online comic and animation to its users for content consumption. Nevertheless, we do not currently expect our channel for distribution of comic and animation, if established, to compete with the Retained Tencent Group in any material respect given that we do not expect such channel to contribute materially to our revenue in the foreseeable future.

With respect to our online paid reading business, the Retained Tencent Group currently offers and will continue to offer certain online platforms to us that serve as some of the channels for the distribution of our literary contents. See the paragraph headed “— Independence from Our Controlling Shareholders — Operational Independence — Online Platform Transactions” in this section for further details on our independence from the Retained Tencent Group in the operation of our online paid reading business. For our future cooperation with the Retained Tencent Group, see the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions subject to Reporting, Annual Review, Announcement, Circular and Independent Shareholders’ Approval Requirements — 4. Online Platform Cooperation Framework Agreement” in this document for further information.

### *Intellectual Property Operations Business*

The Retained Tencent Group may from time to time also license copyrighted literary works from us to develop additional value-added content for its platforms (such as games and drama series). These forms of collaboration are complementary to both us and the Retained Tencent Group considering the leading market position of the Retained Tencent Group and the fact that the Retained Tencent Group does not itself originate literary content in textual formats through its online platforms. See the paragraph headed “— Independence from Our Controlling Shareholders — Operational Independence — IP Cooperation Transactions” in this section for further details on our independence from the Retained Tencent Group in the operation of our intellectual property operations business. For our future cooperation with the Retained Tencent Group, see the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions subject to Reporting, Annual Review, Announcement, Circular and Independent Shareholders’ Approval Requirements — 5. IP Cooperation Framework Agreement” in this document for further information.

### *Online Games Business*

Our online games business is one of our peripheral businesses, the revenue contribution of which is recorded as other revenue during the Track Record Period.

We develop and own proprietary rights to online games adapted from certain of our own literary works that we publish on, and distribute through, our own platform and third-party platforms (the “**Proprietary Games**”). We also derive revenues from joint operation arrangements with game developers and publishers pursuant to which we share user payments with third-party game developers or publishers by offering our own platform for publication and distribution of games developed by third-party game developers that we believe may appeal to our reader base (the “**Non-Proprietary Games**”). These Non-Proprietary Games are distributed on our own platform and we do not have distribution rights on other platforms.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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For each of the three years ended December 31, 2016 and the six months ended June 30, 2017, the Retained Tencent Group recorded revenue of approximately RMB44,756 million, RMB56,394 million, RMB70,784 million and RMB46,646 million, respectively, from its online game operations. Whilst the online game business is one of the principal businesses of the Retained Tencent Group, it is only one of our peripheral businesses through which we seek to monetize our literary contents, promote the stickiness of our existing online readers, attract potential online readers (through the Proprietary Games) and to further monetize the extensive user base of our own platform (through the Non-Proprietary Games). As we mainly focus on our online paid reading business, we maintain our online game business at a level that does not negatively impact or hamper reading experience or satisfaction of our online readers with a view to maintaining a high quality user experience. In view of the business strategy of our online game business, the revenue contribution from both our Proprietary Games and Non-Proprietary Games are immaterial compared to the revenue contribution from our core online reading business. For the three years ended December 31, 2014, 2015 and 2016, and the six months ended June 30, 2017, the revenue generated from our Proprietary Games was approximately nil, RMB157.6 million, RMB26.8 million and RMB10.0 million, respectively, which accounted for approximately nil, 9.8%, 1.0% and 0.5% of our revenues, respectively, and the revenue generated from our Non-Proprietary Games was approximately nil, RMB35.5 million, RMB33.0 million and RMB15.9 million, respectively, which accounted for approximately nil, 2.2%, 1.3% and 0.8% of our revenue, respectively. The relatively high revenue contribution of our Proprietary Games for the year ended December 31, 2015 was of one-off nature due to the short lifespan of online games and was primarily due to (i) two of our self-developed popular online games were published during the same year, and (ii) the relatively low base of revenue for the same year.

Our online games business is adequately delineated from that of the Retained Tencent Group and we do not believe that any potential competition with the Retained Tencent Group is likely to be material to us because:

- *Distinctive Content Feature and Target Players* — Our Proprietary Games are adapted from our own literary works. They are primarily targeted at our readers, especially those who have been reading or following specific literary works from which the games are developed, with the aim of monetizing the upside potential of our literary works, promoting the stickiness of existing online readers and attracting potential online readers. Our Non-Proprietary Games are thoroughly considered, analyzed and selected with a view to appeal to our reader base. On the other hand, the Retained Tencent Group does not confine itself to any specific literary works, theme, feature or group of target players when developing its proprietary games or developing games from titles licensed from third parties.
- *No Game Development Capability* — Unlike the Retained Tencent Group, we do not have game development capabilities and we outsource the development of our Proprietary Games to third-party contractors. We do not have any intention to establish any in-house game development capability.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- *Distribution Channels* — We have no distribution rights and do not, and have no intention to, distribute our Non-Proprietary Games on any of the platforms of the Retained Tencent Group or third parties.
- *Future Plan* — We do not intend to focus on developing new Proprietary Games or expanding joint operation arrangement for our Non-Proprietary Games.

### ***Online Advertising Business***

We generate a small portion of our revenue by offering our proprietary platform (including our websites and mobile apps) as distribution channels for certain flashing advertisements. Similar to our online games business, our online advertising business is also one of our peripheral businesses, the revenue contribution of which is recorded as other revenue during the Track Record Period.

Given the Retained Tencent Group's leading position in the PRC Internet and social network industry, there may from time to time be situations where we may indirectly compete for advertising revenues from the same advertisers as the Retained Tencent Group. However, we do not believe that any potential competition with the Retained Tencent Group is likely to be material to us because:

- *Immaterial Revenue Contribution* — Our online advertising business only accounted for approximately nil, 2.8%, 1.2% and 0.6% of our revenue for the three years ended December 31, 2014, 2015 and 2016, and the six months ended June 30, 2017, which is insignificant as compared to the revenue contribution made by our online paid reading business.
- *No Advertisement Development Capability* — Unlike the Retained Tencent Group which has a large in-house team in charge of its advertising business, we do not have, and do not intend to develop, any advertisement production capability and rely on external advertising agencies to recommend online advertisements.
- *Types of Advertisements* — Unlike the Retained Tencent Group which has a broad user base and therefore does not confine itself to any specific theme or feature or target any specific group of audience with respect to the advertisements placed on its platforms, we strategically select only those advertisements that may appeal to our existing and potential online readers.
- *Future Plan* — We do not intend to actively engage in or expand the current scope of our online advertising business given that our Group places emphasis on user experience, and excessive advertisements on our platform may have negative impacts on our readers' satisfaction.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Interest in Sogou, Inc. (“Sogou”)

Sogou is one of many investee portfolio companies of the Retained Tencent Group. As of June 30, 2017, the Retained Tencent Group held approximately 28.1% of the voting power at general meetings of Sogou which, in addition to the operation of a search engine as its principal business, operates *Sogou Reading*. As of the Latest Practicable Date: (i) the Retained Tencent Group had no control over the composition of the board of directors of Sogou; and (ii) two out of five directors of Sogou were nominated by the Retained Tencent Group. To the best of our knowledge: (i) the Retained Tencent Group does not have any active involvement in the day-to-day management and operation of Sogou or *Sogou Reading* and is only a passive investor in Sogou; and (ii) Sohu.com Inc., being the holder of over 50% of the voting power at general meetings of Sogou as of June 30, 2017, is the controlling shareholder of and consolidates in its consolidated financial statements the results of Sogou. There is no overlap between our Company and Sogou in terms of directors and senior management.

We do not consider that the business of Sogou competes or is likely to compete with the business of our Group. The principal business of Sogou is the operation of a search engine. To the best of our knowledge, it is not engaged in the origination and/or production of online literary content while *Sogou Reading* focuses on the distribution of literary content. Instead of a competing relationship, our relationship with Sogou is mutually beneficial and complementary. As disclosed in the section headed “Business” in this document, Sogou is one of our third-party distribution partners. We license our content to several products of Sogou (including *Sogou Reading*) for content distribution and share a portion of the online reading revenue. *Sogou Reading* has therefore been distributing literary content originally owned by us in accordance with such licensing arrangements. Therefore, Sogou’s business does not compete, and is not likely to compete, with those of our business for the purpose of Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from the Retained Tencent Group after the Listing.

#### Management Independence

Our Directors consider that our Board and senior management will function independently from the Retained Tencent Group because:

(a) *Board structure*

Our Board comprises nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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The Directors are of the view that our Board and our senior management are capable of operating our business and managing all actual or potential conflicts of interest independently of the Retained Tencent Group for the following reasons:

- Except for Mr. James Gordon Mitchell (who served as the chief strategy officer of Tencent and a director of 20 members of the Retained Tencent Group as of the Latest Practicable Date), Mr. Lin Haifeng (who served as a director of one member of the Retained Tencent Group as of the Latest Practicable Date) and Ms. Li Ming (who is an employee of the Retained Tencent Group), there will not be any overlap between the Retained Tencent Group and our Company in terms of directors and senior management. All of Mr. Mitchell, Mr. Lin and Ms. Li are our non-executive Directors and will not be involved in the day-to-day management and operations of our businesses. They will provide professional advice to our Company. See the section headed “Directors and Senior Management” in this document for their roles within the Retained Tencent Group;
- The two executive Directors and the members of our senior management are responsible for the day-to-day management of our business and none of them holds any directorships and/or other roles within the Retained Tencent Group; and
- All of our independent non-executive Directors are independent of the Retained Tencent Group and are professional parties having extensive experience in their respective areas of expertise. See the section headed “Directors and Senior Management” in this document for more details. Our independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are directors of the Retained Tencent Group or otherwise connected with the Retained Tencent Group in any manner that may affect their independent judgement or independence as required under the Listing Rules.

(b) *Director’s duties*

Each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and our Shareholders as a whole and does not allow any conflict between his/her duties as a director and his/her personal interests.

(c) *Corporate governance measures*

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following corporate governance measures to identify and manage potential conflicts of interests:

- Where the Board is considering a resolution in which the Retained Tencent Group is materially interested, the Directors nominated by the Retained Tencent Group (i.e. Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Li Ming) (the “**Conflicting Directors**”)

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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are required to abstain from voting on such resolution, and in the event there is an equality of votes by the remaining Directors on such resolution, the chairman (who shall not be a Director nominated by the Retained Tencent Group) presiding at such board meeting shall have a second or casting vote;

- We have established internal control mechanisms to identify connected transactions. Any connected transactions between our Group and the Retained Tencent Group will be and are identified in advance and the Conflicting Directors must abstain from voting on the relevant resolutions and the requirements set out in Chapter 14A of the Listing Rules will be complied with;
- Our independent non-executive Directors are independent from the Retained Tencent Group and are appointed in accordance with the requirements under the Listing Rules to ensure that decisions of the Board are made only after due consideration of independent and impartial opinions;
- We will disclose decisions on matters reviewed by our independent non-executive Directors and basis of such decisions, either in our annual reports or by way of announcements as required by the Listing Rules;
- In order to allow non-conflicting members of the Board to function properly with necessary professional advice, we will engage a third-party professional advisor to advise our Board when necessary; and
- We have appointed Guotai Junan Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between us and the Retained Tencent Group, and to protect our Shareholders' interests after the Listing.

(d) *Separate management team*

Our Company has our own management team and separate functional departments including accounting, administration, human resources, legal and company secretarial departments. All essential administration and daily operations of our Company are carried out by a team of staff employed by our Company independently of and without any support from the Retained Tencent Group. In addition, save as disclosed above, none of our senior management holds any office in or is employed by the Retained Tencent Group.

On the basis of the aforesaid, our Directors believe that we operate independently of the Retained Tencent Group and in the interests of our Shareholders.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Operational Independence

Save as disclosed in the sections headed “Business — Intellectual Property”, “Business — Properties”, “Business — Licences and Permits” and “Connected Transactions — Exempt Continuing Connected Transactions — 1. IP License Framework Agreement” in this document, our Group holds all relevant licenses and owns (or otherwise are licensed) all relevant intellectual properties and production and research and development facilities necessary to carry on our business. We have sufficient capital, facilities and employees to operate our business independently from the Retained Tencent Group. Apart from internal audit and tax advice services which will be provided by the Retained Tencent Group to our Group as set out in the section headed “Connected Transaction — Exempt Continuing Connected Transactions — 4. Internal Audit and Tax Advice Services Framework Agreement”, we have established our own business development, sales and marketing, finance, technology, human resources, legal and other administrative functions which operate independently from the Retained Tencent Group. We have also adopted a set of internal control procedures to maintain effective and independent operation of our business.

We have independent access to our customers and suppliers and an independent management team to operate our business. To the best knowledge of our Directors, save in respect of the ongoing services provided to us, and expected to continue to be provided to us, by the Retained Tencent Group as further described in the section headed “Connected Transactions” in this document, all of our suppliers are Independent Third Parties.

We have entered into a number of transactions with Tencent Computer which constitute the framework for our business cooperation with the Retained Tencent Group. In particular, we have entered into a framework agreement with Tencent Computer relating to the distribution of our literary works through our self-operated channels on Tencent products (“**Online Platform Transactions**”) and a framework agreement with Tencent Computer relating to the cooperation in the adaptation of our literary works and/or distribution of products adapted from these literary works (“**IP Cooperation Transactions**”). See the section headed “Connected Transactions” in this document for further details of and the reasons for entering into these transactions. Our Directors believe that the roles of our Company and those of the Retained Tencent Group are complementary and beneficial to each other. Furthermore, given the leading position that the Retained Tencent Group enjoys in the PRC’s Internet and social network industry, it is natural and in the best interests of our Company and our Shareholders to cooperate with the Retained Tencent Group. Nevertheless, we are not and will not be bound to cooperate with the Retained Tencent Group unless we agree to do so. We are still and will be open to all forms of cooperation with other business partners that are independent of the Retained Tencent Group. Our Directors believe that these transactions will not cause any business dependence or reliance issue between our Company and the Retained Tencent Group.

### *Online Platform Transactions*

Tencent provides us with access to its users through its products. We are principally responsible for the actual operations of, and provide the core services to the readers for, our self-operated channels on Tencent products. For the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, revenue from distribution of literary works through our self-operated channels

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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on Tencent products accounted for approximately 27.7%, 20.4%, 33.7% and 33.4% of the revenue from our online paid reading business, respectively. The increase in revenue contribution from distribution of literary works through our self-operated channels on Tencent products in 2016 was due to the fact that we only started to expand the distribution of our literary works through our self-operated channels on Tencent products and independent third parties' platforms during that year. In particular, we significantly expanded the distribution of our literary titles through *QQ Browser* in 2016. However, we are of the view that we do not and will not significantly rely on our self-operated channels on Tencent products to distribute our literary works for the following reasons:

- *Nature of the our Industry and Mode of our Operation on the Retained Tencent Group's Platforms* — We operate in the highly scalable Internet space and are not subject to the traditional capacity constraint. We own all of our literary content and are capable of distributing all the literary content on our proprietary platforms. In particular, when we distribute our literary content on our self-operated channels on Tencent products, we generally assume the operation of such distribution on our self-operated channels on Tencent products by synchronizing our user credentials and making our tools and functionalities available to users on the Retained Tencent Group's platforms. As such, our self-operated channels on Tencent products simply serve as additional channels through which we distribute our literary content. We have cooperated with the Retained Tencent Group and distributed our literary content on our self-operated channels on Tencent products in light of the synergistic benefits (as set out below) derived from such cooperation.
- *Distribution through our Proprietary Platform* — We have nine main proprietary products in the forms of website, WAP and mobile app, such as *QQ Reading*, *qidian.com*, *chuangshi.qq.com* and *yunqi.qq.com*. For the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, revenue from distribution of literary works through our proprietary platform accounted for approximately 69.9%, 60.8%, 53.6% and 53.3% of the revenue from our online paid reading business, respectively. We are therefore capable of distributing all the literary contents independently from the Retained Tencent Group.
- *Leading Position of the Retained Tencent Group in the PRC Internet and Social Network Industry* — The Retained Tencent Group enjoys a leading position in the PRC's Internet and social network industry with an extensive network coverage (including but not limited to websites, social networking software and smartphone applications) and a vast user base. According to Frost & Sullivan, (i) nearly all of the Chinese Internet population of 731 million people in 2016 used the Retained Tencent Group's platforms, and (ii) *QQ Browser* and *Tencent News* also rank top among mobile browsers in China in term of MAUs and among online news portals, respectively, as measures of mobile user penetration. The Retained Tencent Group's *Weixin/WeChat* and *Mobile QQ* platforms are the top two mobile social networks and mobile apps in China with 889 million and 869 million MAUs as of December 31, 2016. In light of the market position of the Retained Tencent Group, it would be beneficial for us to cooperate with the Retained Tencent Group with respect to the distribution of online literary works on its online social and mobile platforms.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- *Mutual and Complementary Relationship* — The roles of the Retained Tencent Group (as a leading social and communication platforms and media platforms operator in the PRC Internet and social network industry) and of us (as the largest online literature library provider in China) are mutually complementary and beneficial to each other because (a) on the one hand, we can distribute our online literary works through our self-operated channels on Tencent products, namely *Mobile QQ*, *QQ Browser*, *Weixin Reading* and *Tencent News*, which provide us with access to hundreds of millions of Chinese Internet users on a daily basis; and (b) on the other hand, we are the exclusive literary content provider to *Mobile QQ*, *QQ Browser*, *Weixin Reading* and *Tencent News*. As the largest online literature library provider in China, our library content contains some of the most popular content for PRC online readers. The distribution of our literary contents on our self-operated channels on Tencent products therefore broadens the breadth of entertainment-oriented contents which the Retained Tencent Group can offer to its Internet and social network users as an integrated Internet services provider.
- *Diversified Distribution Channels* — We have also established content distribution partnerships with third-party leading Internet and telecommunication partners in China, such as *Baidu*, *Sogou*, *JD.com* and *Xiaomi Duokan*. For each of the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, revenue from distribution of literary works through third-party platforms accounted for approximately 2.4%, 18.8%, 12.7% and 13.3% of the revenue from our online paid reading business, respectively. In particular, we began to partner with mobile device manufacturers to pre-install our mobile app on the devices they manufacture in 2015. We will continue to broaden our distribution channels and expand our network of Internet and mobile device manufacturer partners. We expect that revenue generated from independent third-parties' platforms, both in absolute amounts and as a percentage of the revenue from our online paid reading business, will continue to increase in 2017 and onwards.

### *IP Cooperation Transactions*

We started to expand our intellectual property operations business in 2015. During the years of 2015 and 2016, we were in the process of establishing extensive relationship and business model with content adaptation partners for the adaptation of our literary works into different entertainment formats (such as films, television and web series, PC and mobile games and animation) and distribution of products adapted from such literary works. In particular, we only started with adaptation of our literary works into animations in 2015. We believe the business model of our intellectual operations business is now well positioned for rapid growth.

In addition, the number of our literary titles increased from 6.0 million as of December 31, 2014 to 7.1 million as of December 31, 2015, and further increased to 8.4 million as of December 31, 2016, which represented a year-on-year increase of approximately 18.3%. The number of our literary titles has further increased to 9.6 million as of June 30, 2017. The revenue derived from the licensing of our top 20 intellectual properties increased by 21.7% from 2015 to 2016. As such, we also expect that there will be a continual increase in the number of our intellectual properties available for licensing and adaptation, and the monetization value of our intellectual properties in line with the growth of our business.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Although we cooperate with the Retained Tencent Group in the media adaptation of our literary works and/or distribution of products adapted from these literary works, we are of the view that we do not and will not significantly rely on the Retained Tencent Group for our intellectual property operations business for the following reasons:

- *Limited Revenue Contribution* — The transaction amount of the IP Cooperation Transactions only accounted for approximately 0.2%, 1.2%, 1.8% and 2.9% of our total revenue for the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. The revenue generated from the IP Cooperation Transactions amounted to RMB1.0 million, RMB19.0 million, RMB46.8 million and RMB56.6 million and accounted for 8.3%, 11.7%, 18.9% and 36.4% of our revenue generated from our intellectual property operations for the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. On the other hand, the revenue generated from our cooperation with third-party content adaptation partners amounted to RMB11.1 million, RMB143.8 million, RMB200.6 million and RMB99.1 million and accounted for 91.7%, 88.3%, 81.1% and 63.6% of our revenue generated from our intellectual property operations for the three years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively. Although the revenue contribution of the IP Cooperation Transactions is expected to increase, such increase is in line with the rapid growth of our intellectual property operations business and the intellectual property adaptation market. According to Frost & Sullivan, the CAGR of the intellectual property adaptation market (including online games, television programs, web programs, movies, comics and animations) from 2016 to 2020 is forecasted to be in the range of approximately 10% to 25%. Increase in the revenue contribution of the IP Cooperation Transactions in future would therefore not be indicative of our reliance on the Retained Tencent Group. We have established cooperation with third-party content adaptation partners and have full autonomy to operate our intellectual property operations business independent from the Retained Tencent Group.
- *Mutual and Complementary Relationship* — the roles of the Retained Tencent Group and of us are mutually complementary and beneficial to each other because (a) on the one hand, it would be beneficial for us to cooperate with the Retained Tencent Group with respect to the adaptation of intellectual properties to maximize the monetization potential in light of (i) the leading position of the Retained Tencent Group in PRC's media entertainment market and (ii) the integrated production and distribution capability of, and the synergistic effect and benefits provided by, the Retained Tencent Group to adapt our literary titles into different media formats (including films, television and web series, PC and mobile games and animation) and distribute the adapted products on its different platforms which would allow the maximization of the monetization value of a particular literary title over a short period of time; and (b) on the other hand, we offer original content with great popularity and monetization potential to the Retained Tencent Group for adaptation and offering the adapted products in different entertainment formats to its Internet and social network users, which is consistent with its business strategies to focus on the production of original content with popular titles with an aim to offering premium content on its platforms.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### *Other Transactions*

In addition to the Online Platform Transactions and the IP Cooperation Transactions, we also have the following transactions with the Retained Tencent Group which constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules:

- Provision of various promotion services by the Retained Tencent Group to us, including promotion and offering links and content relating to our products at the platforms operated by the Retained Tencent Group;
- Provision of a wide spectrum of technical support service by the Retained Tencent Group to us; and
- Provision of payment service by the Retained Tencent Group to us on our proprietary platform.

See the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements” in this document for further details. Given that each of these transactions are only subject to the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules, we are of the view that we do not and will not significantly rely on the Retained Tencent Group as a result of the Retained Tencent Group’s provision of these services considering (i) their ancillary and peripheral nature, (ii) the fact that our payment for these services are not significant, and (iii) the fact that we could if necessary obtain similar services from Independent Third Parties.

Based on the above, our Directors believe that we are able to operate independently of the Retained Tencent Group.

### **Financial Independence**

Our Company has an independent financial system and makes financial decisions according to our Group’s own business needs. We have an independent internal control and accounting system. We also have an independent finance department responsible for discharging the treasury function. Our business has been primarily funded by our operating cashflow and the proceeds from the pre-IPO investments. We are capable of obtaining financing from third parties without reliance on the Retained Tencent Group and have obtained a loan in the amount of RMB475 million from a bank in March 2017.

All amounts payable by us to the Retained Tencent Group will be repaid on or prior to the Listing Date. As such, there will be no loans, guarantees, or other forms of financial assistance provided by, or granted to, the Retained Tencent Group outstanding as of the Listing Date.

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## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

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Based on all of the above, our Directors are of the view that we are capable of carrying on our business independently of, and will not place any undue reliance on, the Retained Tencent Group.

### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Save as disclosed in this section, none of our Directors is interested in any businesses apart from our Group's business which competes or is likely to compete, either directly or indirectly, with our Group's business under Rule 8.10(2) of the Listing Rules.

## CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions that we enter into with our connected persons will constitute connected transactions upon the Listing.

### SUMMARY OF OUR CONNECTED PERSONS

The table below sets forth parties who will become our connected persons upon the Listing and the nature of their relationship with our Group. We have entered into certain transactions which will constitute our continuing connected transactions following the Listing with the following connected persons:

| Name                       | Connected Relationship                                     |
|----------------------------|--|
| Tencent Computer .....     | subsidiary of Tencent, one of our Controlling Shareholders |
| Litong .....               | subsidiary of Tencent, one of our Controlling Shareholders |
| Ningbo Meishan Yuebao..... | associate of Mr. Wu Wenhui, our Director                   |

### SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

| Transactions  | Applicable Listing Rules          | Waivers sought | Proposed annual cap for the year<br>ending December 31, |      |      |
|---|-----------------------------------|----------------|---|------|------|
|   |                                   |                | 2017  | 2018 | 2019 |
| <b>Exempt continuing<br/>connected transactions</b>           |                                   |                | <b>(in RMB '000)</b>                                    |      |      |
| 1. IP License Framework Agreement                             | 14A.34, 14A.52, 14A.53 and 14A.76 | N/A            | N/A   | N/A  | N/A  |
| 2. Advertisement Solicitation Services Framework Agreement    | 14A.34, 14A.52, 14A.53 and 14A.76 | N/A            | N/A   | N/A  | N/A  |
| 3. Virtual Currency Framework Agreement                       | 14A.34, 14A.52, 14A.53 and 14A.76 | N/A            | N/A   | N/A  | N/A  |
| 4. Internal Audit and Tax Advice Services Framework Agreement | 14A.34, 14A.52, 14A.53 and 14A.98 | N/A            | N/A   | N/A  | N/A  |



## CONNECTED TRANSACTIONS

| Transactions   | Applicable Listing Rules  | Waivers sought  | Proposed annual cap for the year<br>ending December 31, |         |         |
|--|---|---|---|---------|---------|
|  |   |   | 2017  | 2018    | 2019    |
| <b>Non-exempt continuing<br/>connected transactions</b>      |   |   | (in RMB '000)   |         |         |
| 1. Promotion Cooperation Framework Agreement                 | 14A.34, 14A.35 and 14A.76                                       | Announcement requirement under Chapter 14A of the Listing Rules   | 80,000  | 100,000 | 120,000 |
| 2. Payment Services Cooperation Framework Agreement          | 14A.34, 14A.35 and 14A.76                                       | Announcement requirement under Chapter 14A of the Listing Rules   | 13,500  | 18,900  | 26,460  |
| 3. Cloud Services and Technical Services Framework Agreement | 14A.34, 14A.35 and 14A.76                                       | Announcement requirement under Chapter 14A of the Listing Rules   | 50,000  | 70,000  | 98,000  |
| 4. Online Platform Cooperation Framework Agreement           | 14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59 and 14A.71         | Requirements as to announcement, circular, shareholders' approval and annual caps under Chapter 14A of the Listing Rules                                  | N/A   | N/A     | N/A     |
| 5. IP Cooperation Framework Agreement                        | 14A.34, 14A.35, 14A.36, 14A.49, 14A.53 to 59 and 14A.71         | Requirements as to announcement, circular, shareholders' approval and annual caps under Chapter 14A of the Listing Rules                                  | N/A   | N/A     | N/A     |
| 6. Contractual Arrangements                                  | 14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59 and 14A.71 | Requirements as to announcement, circular, shareholders' approval, terms not exceeding three years and annual caps under Chapter 14A of the Listing Rules | N/A   | N/A     | N/A     |

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## CONNECTED TRANSACTIONS

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### EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Group which are exempt from all of the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### 1. IP License Framework Agreement

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) with effect from the Listing Date, pursuant to which the Retained Tencent Group agreed to license its intellectual property rights (“IP Rights”) to us for use in connection with our business and operations on a non-exclusive and royalty-free basis for a perpetual term commencing from the Listing Date (the “IP License Framework Agreement”). Such IP Rights include but are not limited to trademarks (such as “QQ阅读” trademarks disclosed in the section headed “Statutory and General Information — B. Further Information About Our Business — 2. Intellectual Property Rights — (a) Trademarks — (v) Trademarks licensed by Tencent” in Appendix IV), software copyrights, domain names and patents. In particular, the following patents and patent applications are expected to be licensed by the Retained Tencent Group to us pursuant to the IP License Framework Agreement after the Listing with an aim to enhancing the overall user experience of and bolstering the competitiveness of our literary products:

| Name of patent/Nature of patent | Patent number |
|---------------------------------|---------------|
| 一種電子書操作控制方法及裝置 .....            | CN103543930A  |
| 一種閱讀歷史的展示方法及電子閱讀設備 .....        | CN103810909A  |
| 虛擬產品的推送方法和系統 .....              | CN104240102A  |
| 實現觸屏設備網頁閱讀模式的方法和系統 .....        | CN102830910A  |
| 一種添加電子書籤的方法及閱讀設備 .....          | CN103514146A  |
| 翻頁方法、裝置及終端 .....                | CN104077041A  |
| 頁面顯示方法、裝置和終端設備 .....            | CN104102419A  |
| 閱讀器提供服務的方法、閱讀器及終端 .....         | CN102830989A  |
| 設置電子閱讀前景和背景的方法與裝置 .....         | CN103137095A  |

The parties to the framework agreement may during the effective period of the framework agreement separately agree on the IP Rights to be licensed by the Retained Tencent Group to us.

As the IP Rights are granted under the IP License Framework Agreement on a royalty-free basis (which are on normal commercial terms or terms that are better to us), the IP License Framework Agreement will be fully exempt from all of the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Our Directors and the Joint Sponsors are of the view that considering the nature of the IP Rights and the strategic importance of the IP Rights to the stability of our Group's business and operations, it is normal business practice and in the interests of our Company and our Shareholders as a whole for the term of the IP License Framework Agreement to be longer than three years.

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## CONNECTED TRANSACTIONS

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### 2. **Advertisement Solicitation Services Framework Agreement**

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) with effect from the Listing Date, in relation to the online advertisement solicitation services provided by the Retained Tencent Group which is in the ordinary and usual course of our business and is on normal commercial terms (the “**Advertisement Solicitation Services Framework Agreement**”). The solicitation agency commission charged by the Retained Tencent Group will be determined with reference to market rates.

As the applicable percentage ratios for these transactions calculated under Chapter 14A of the Listing Rules will be less than 0.1%, these transactions will be fully exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

### 3. **Virtual Currency Framework Agreement**

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) with effect from the Listing Date, in relation to purchase of virtual currency from the Retained Tencent Group for marketing and promotion purposes which is in the ordinary and usual course of our business and is on normal commercial terms (the “**Virtual Currency Framework Agreement**”). Such virtual currency can be used to purchase virtual items and services on the Retained Tencent Group’s platforms. The price payable to the Retained Tencent Group for the virtual currency purchased shall be negotiated between the parties on an arm’s length basis and with reference to the market rates.

As the applicable percentage ratios for these transactions calculated under Chapter 14A of the Listing Rules will be less than 0.1%, these transactions will be fully exempt from all of the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

### 4. **Internal Audit and Tax Advice Services Framework Agreement**

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) with effect from the Listing Date, in relation to provision of internal audit and tax advice services (the “**Internal Audit and Tax Advice Services Framework Agreement**”). Pursuant to the Internal Audit and Tax Advice Services Framework Agreement, the Retained Tencent Group will provide internal audit and tax advice services to us. The aggregate service fees payable by us to the Retained Tencent Group under the Internal Audit and Tax Advice Services Framework Agreement will be determined on a cost basis.

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## CONNECTED TRANSACTIONS

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We have already established an internal audit department since 2011, and it has been executing internal audit assignments and reporting to our management regularly. Nevertheless, given the higher expectations in corporate governance as a public company, we consider the assistance of Tencent in enhancing our internal audit function beneficial at the current stage. As Tencent has a more than 13-year track record as a listed company with a good record of regulatory compliance, we and our finance personnel will benefit from the experience and knowledge of working with Tencent, and will more rapidly gain an understanding of corporate governance best practices for a company listed on the Stock Exchange. We (including the audit committee of the Board) will closely monitor and supervise the development and performance of the internal audit department, and we may consider using third party service providers in the event that conflict issues arise that materially impact the internal audit process.

As the transactions contemplated by the Internal Audit and Tax Advice Services Framework Agreement constitute the sharing of administrative services on a cost basis, and the costs are identifiable and can be allocated to the parties on a fair and equitable basis, such agreement is exempt from all of the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.98 of the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Group, which are either (i) subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, or (ii) subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The non-exempt continuing connected transactions set out below (except the Contractual Arrangements) do not cover transactions between us and Tencent's associates which are not members of the Retained Tencent Group.

### Continuing Connected Transactions Subject to Reporting, Annual Review and Announcement Requirements

#### 1. Promotion Cooperation Framework Agreement

##### *Description of the Agreement*

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group), pursuant to which the Retained Tencent Group would promote our products or services on its platforms (including but not limited to provision of promotion services and provision of links to our products and content) (the "**Promotion Cooperation Framework Agreement**"). The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

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The term of the Promotion Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

In return for these promotion services, we would pay certain promotion services fees in one or more of the following manners, depending on the Retained Tencent Group's platform(s) through which the promotion services are provided:

- Cost-Per-Time: charged on the basis of length of duration of promotion services provided by the Retained Tencent Group;
- Cost-Per-Click: charged on the basis of the price of each click and number of clicks of online users;
- Cost-Per-Download: charged on the basis of actual download volumes of our products or services;
- Cost-Per-Activity: charged on the basis of number of newly activated users;
- Cost-Per-Sale: charged on the basis of revenue generated from the users procured through the Retained Tencent Group; and
- Cost-Per-Mille: charged on the basis of the number of impressions (expressed in thousands) generated by online users.

The promotion services fees will be determined after arm's length negotiation between the parties with reference to the market rates.

### *Reasons for the Transactions*

Given that the Retained Tencent Group is a leading player in the PRC Internet, social network and media entertainment industries, the use of promotion services on its platforms would enable us to gain more popularity and reach more potential readers, hence further enhancing our business growth. Many of our users and potential new users are users of the Retained Tencent Group's platforms through which we distribute our literary works. We believe that the promotion services provided by the Retained Tencent Group will enable us to increase our users' and potential new users' awareness of and familiarity with our products which will be crucial to the success of our business.

### *Pricing Policy*

Before entering into any promotion agreement pursuant to the Promotion Cooperation Framework Agreement, we will assess our business needs and compare the rates of promotion services fees proposed by the Retained Tencent Group with the rates offered by other comparable promotion service providers. We will only enter into a promotion service agreement with the Retained Tencent Group when the rates of promotion services fees proposed by the Retained Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### *Historical Amounts and Basis of Annual Caps*

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amounts of the promotion services fees paid/payable to the Retained Tencent Group by us were nil, RMB36.1 million, RMB99.6 million and RMB19.8 million, respectively.

For the years ending December 31, 2017, 2018 and 2019, the relevant annual caps are expected to be RMB80 million, RMB100 million and RMB120 million, respectively. When estimating the annual caps, our Directors have taken into consideration the aforesaid historical amounts and the potential growth in our online reading business with reference to the potential growth in China's online literature industry. According to Frost & Sullivan, China's online literature market size is projected to grow at a CAGR of 29.6% from 2017 to 2019. See the section headed "Industry Overview — Online Literature Market in China — Overview and Outlook of China's Literature Market" in this document for further details. In respect of the annual cap for the year ending December 31, 2017, the RMB19.8 million paid/payable to the Retained Tencent Group for the six months ended June 30, 2017 was not fully representative of the promotional service fees paid/payable to the Retained Tencent Group for the whole year as this year's main joint-promotional campaign was just launched in June 2017, which is later than in previous years (this typically commences in around April). Therefore, the proposed annual cap of RMB80 million for the year ending December 31, 2017 reflects the greater amount of promotional expenditure expected to be incurred in the second half of 2017.

Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will be 0.1% or more but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the Promotion Cooperation Framework Agreement will be exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders' approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules. We have applied for, and the Stock Exchange has granted, waivers from these requirements as described below.

## 2. **Payment Services Cooperation Framework Agreement**

### *Description of the Agreement*

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group), pursuant to which the Retained Tencent Group agreed to provide us with payment services through its payment channels so as to enable our users to conduct online transactions (the "**Payment Services Cooperation Framework Agreement**"). We shall in return pay payment service commissions to the Retained Tencent Group. The precise scope of service, commission rate, the applicable payment channel and other details of arrangement shall be agreed between the relevant parties separately.

The term of the Payment Services Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

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## CONNECTED TRANSACTIONS

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The payment service commissions will be determined after arm's length negotiation between the parties with reference to the market rates. The commission rate and calculation method shall be agreed between the parties separately.

### *Reasons for the Transactions*

There are limited choices of online payment channels in the PRC. Given that the Retained Tencent Group is a leading player in the PRC online payment service industry while many of our users use the Retained Tencent Group's online payment services, such cooperation would enable us to provide our users with the best available payment methods and therefore enhance our users' satisfaction with our services.

### *Pricing Policy*

Before entering into any payment service agreement pursuant to the Payment Services Cooperation Framework Agreement, we will assess our business needs and compare the commission rates proposed by the Retained Tencent Group with the rates offered by other comparable payment service providers. We will only enter into a payment service agreement with the Retained Tencent Group when the payment service commission rates proposed by the Retained Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

### *Historical Amounts and Basis of Annual Caps*

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amounts of payment service commissions in connection with payment services paid/payable to the Retained Tencent Group by us were RMB9,277, RMB0.3 million, RMB2.1 million and RMB5.0 million, respectively.

For the years ending December 31, 2017, 2018 and 2019, the relevant annual caps are expected to be RMB13.5 million, RMB18.9 million and RMB26.5 million, respectively. In December 2016, one of our subsidiaries increased the use of two payment channels of the Retained Tencent Group, which contributed to a significant increase in payment service commissions. When estimating the annual caps, our Directors have taken into consideration the aforesaid historical amounts and the potential growth in the amounts paid by our users through the Retained Tencent Group's payment channels. In particular, our Directors have also taken into consideration the recent strong growth in the use of the Retained Tencent Group's payment services. For the six months ended June 30, 2017, the aggregate amounts of payment service commissions in connection with payment services paid/payable to the Retained Tencent Group by us were RMB5.0 million, which is more than double of the total amount in respect of the year ended December 31, 2016. Our Company also expects that the aggregate amounts of payment services commissions in connection with payment services paid/payable to the Retained Tencent Group by us for the second half of the year ending December 31, 2017 will exceed that for the first half of the year ending December 31, 2017. Our Directors therefore consider that the proposed annual caps are fair and reasonable.



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Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will be 0.1% or more but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the Payment Services Cooperation Framework Agreement will be exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders' approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules. We have applied for, and the Stock Exchange has granted, waivers from these requirements as described below.

### 3. Cloud Services and Technical Services Framework Agreement

#### *Description of the Agreement*

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) entered into a framework agreement with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group), pursuant to which the Retained Tencent Group agreed to provide cloud services and other technical services to us for service fees (the “**Cloud Services and Technical Services Framework Agreement**”). Cloud services and other technical services include but are not limited to provision of cloud services, cloud storage, cloud service related technical support, and domain name resolution services. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

The term of the Cloud Services and Technical Services Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

The service fees will be determined after arm's length negotiation between the parties on a “cost-plus” pricing basis and with reference to the market rates.

#### *Reasons for the Transactions*

There are limited choices of cloud service providers in the PRC. The Retained Tencent Group is a leading integrated service provider for a wide range of cloud services and technical services in the PRC and is able to provide reliable and cost-efficient services. Taking into account the wide spectrum of cloud services and technical services required for our operation, we believe that obtaining such services from one single integrated service provider, namely the Retained Tencent Group, is our best available option and will be able to reduce unnecessary additional costs incurred in seeking such services from different service providers. We therefore entered into the Cloud Services and Technical Services Framework Agreement to govern any cloud services and technical services to be provided by the Retained Tencent Group to us.

#### *Pricing Policy*

Before entering into any cloud service agreement or technical service agreement pursuant to the Cloud Services and Technical Services Framework Agreement, we will assess our needs and compare

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the service fee rates proposed by the Retained Tencent Group with the rates offered by other competent service providers. We will only enter into a service agreement with the Retained Tencent Group when the service fee rates are in line with or lower than the market rates and the agreement is in the best interests of our Company and our Shareholders as a whole.

### *Historical Amounts and Basis of Annual Caps*

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amounts of fees relating to cloud services and technical services paid/payable to the Retained Tencent Group by us were RMB6.6 million, RMB8.8 million, RMB24.9 million and RMB18.3 million, respectively.

For the years ending December 31, 2017, 2018 and 2019, the relevant annual caps are expected to be RMB50 million, RMB70 million and RMB98 million, respectively. When estimating the annual caps, our Directors have taken into consideration the aforesaid historical amounts and our expectation that there will be an increase in the service fees payable under the Cloud Services and Technical Services Framework Agreement in light of (i) the potential growth in the number of users and writers, (ii) an increase in the use of cloud services and technical services due to recent migration of our existing websites to the Retained Tencent Group's cloud servers, and (iii) the launch of new overseas websites on the Retained Tencent Group's cloud servers in the future. For the six months ended June 30, 2017, the aggregate amounts of fees relating to cloud services and technical services paid/payable to the Retained Tencent Group by us already exceeded RMB18 million. Our Company also expects that such fees will increase substantially in the second half of the year ending December 31, 2017 primarily due to the factors highlighted above.

Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules will be 0.1% or more but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the transactions contemplated under the Cloud Services and Technical Services Framework Agreement will be exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders' approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules. We have applied for, and the Stock Exchange has granted, waivers from these requirements as described below.

### **Continuing Connected Transactions subject to Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements**

#### **4. Online Platform Cooperation Framework Agreement**

##### *Description of the Agreement*

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) and Tencent Computer (for itself and on behalf of other members of the Retained Tencent

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Group) entered into a framework agreement (the “**Online Platform Cooperation Framework Agreement**”) relating to the cooperation (the “**Online Platform Cooperation CCTs**”) in the distribution of our literary works through our self-operated channels on Tencent platforms (the “**Retained Tencent Group Platforms**”). During the term of the Online Platform Cooperation Framework Agreement, we are the exclusive literary content provider to the Retained Tencent Group Platforms. The Retained Tencent Group shall provide the end users of the Retained Tencent Group Platforms with access to our literary works so that they can preview the literary works or enjoy free or paid online reading services. We shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute our literary works through other channels. We shall have access to the data of back-end technology platforms of the relevant Retained Tencent Group Platforms. Details of cooperation such as the scope of authorized literary works and Retained Tencent Group Platforms, the form of cooperation and authorization of the literary works and the allocation of responsibilities shall be agreed by the parties separately.

The term of the Online Platform Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

### *Annual Cap*

The revenue arising out of the Online Platform Cooperation CCTs shall be split between the relevant parties and shall be determined in accordance with the following formula:

$$\text{Net Proceeds} \times \text{prescribed revenue sharing percentage}$$

Net Proceeds shall refer to the aggregate net amount of deposits received from the users of the Retained Tencent Group Platforms that access our literary works after deduction of the platform commissions and certain operating expenses incurred for operation of and distribution by the Retained Tencent Group Platforms. The platform commission and operating expenses deducted represent the relevant proportion of expenses as charged by third party platforms (e.g. Apple and Android) when the users add value to their accounts using these platforms. These expenses represent a standard amount charged in respect of each third party platform. The amount to be shared by the Retained Tencent Group for each of the underlying Online Platform Cooperation CCTs shall not exceed the Net Proceeds received pursuant to the relevant Online Platform Cooperation CCTs x 30%.

The prescribed revenue sharing percentage will depend on the Retained Tencent Group Platform through which the literary works is distributed and shall be determined after arm’s length negotiation between the relevant parties and will in any event not exceed 30%.

### *Reasons for the Transactions*

We distribute our literary works to readers through our own platform as well as our self-operated channels on Tencent’s distribution platforms. The Retained Tencent Group is a leading player in the PRC Internet, social network and media entertainment industries with an extensive network coverage (including but not limited to websites, social networking software and smartphone applications) and a vast user base. Our cooperation with the Retained Tencent Group in utilizing its platforms to

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distribute our literary contents will enable us to leverage the popularity of the Retained Tencent Group Platforms among users, and allow us to reach more potential users, and further enhance our business growth. See the section headed “Relationship with our Controlling Shareholders” in this document for more information on our growth through cooperation with the Retained Tencent Group.

### *Pricing Policies*

The prescribed percentages for the revenue shared by the Retained Tencent Group will vary from platform to platform and shall be determined between the relevant parties on an arms-length basis from time to time and will in any event not exceed 30%. Generally, when determining the prescribed percentage for a specific online platform cooperation, we will take into account factors such as the coverage of content provided by us, the frequency of content update by us, and other services that may be required by us or the Retained Tencent Group.

The arrangement with the Retained Tencent Group is not directly comparable with those between us and other third party distribution channels, because in such other instances we are generally not involved in product operation and instead primarily provides sources of content for display on such third party distribution channels to their readers. The terms for other third-party distribution channels are therefore not directly comparable with those for our own self-operated channels offered by the Retained Tencent Group.

### *Historical Amounts and Basis for Not Setting Monetary Annual Caps*

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively:

- the aggregate amounts of the Online Platform Cooperation CCTs were RMB15.5 million, RMB38.0 million, RMB184.5 million and RMB140.8 million, respectively, of which the majority represented online reading platform distribution costs payable to the Retained Tencent Group, and the remaining represented the revenue derived from *Weixin Reading* and etc.; and
- the aggregate amounts of the Online Platform Cooperation CCTs accounted for 3.3%, 2.4%, 7.2% and 7.3% of the total revenue of our Group, respectively.

It would be unsuitable to adopt monetary annual caps for the Online Platform CCTs contemplated in the Online Platform Cooperation Framework Agreement for the following reasons:

- (i) it would be impracticable to estimate with any degree of certainty the amount of revenue which may be generated by these transactions as it will ultimately depend on factors such as the acceptance and popularity of our existing and future literary works and user traffic among the users of the Retained Tencent Group Platforms, all of which are beyond the control of us and the Retained Tencent Group;
- (ii) we have been rapidly expanding our online literature product offerings in recent years and the aggregate amounts of the Online Platform Cooperation CCTs grew significantly by

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145.8% from 2014 to 2015 and 385.6% from 2015 to 2016. As we expect that we will continue to significantly expand our online literature product offerings after the Listing, it would be difficult to predict with any certainty how rapid the growth in the user traffic derived from the Retained Tencent Group Platforms will be in the future. We believe that the adoption of fixed monetary annual caps will impose an arbitrary ceiling on the revenue that we could derive from the Online Platform Cooperation CCTs and defeats the purpose of adopting revenue sharing arrangement to incentivize the online platform providers based on their performance;

- (iii) adoption of annual caps with fixed monetary annual caps will render it unduly burdensome for us to comply with the disclosure, announcement, circular and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules whenever the revenue generated through the Online Platform Cooperation CCTs exceeds the caps; and
- (iv) the sharing of revenue based on the formula provided in the Online Platform Cooperation Framework Agreement (ie. revenue split based on a prescribed ratio) is consistent with the historical and the prevailing commercial practices in relation to our online platform cooperation arrangements with the Retained Tencent Group or other third parties. The average revenue sharing percentage of the Online Platform Cooperation CCTs was 23% for the year ended December 31, 2016 and for the six months ended June 30, 2017. The upper limit for the prescribed percentage of the Net Proceeds to be shared by the Retained Tencent Group of 30% set out in the formula provided in the Online Platform Cooperation Framework Agreement is also (a) consistent with the historical rates adopted by us in relation to our online platform cooperation arrangements with the Retained Tencent Group and/or other independent third parties and (b) within the market range identified by Frost & Sullivan as the percentage of revenue shared by online platform cooperation partners for similar online platform cooperation, which is 20% to 50%. The revenue sharing formula as set out above therefore offers the best alternative to monetary annual caps in light of the difficulties set out in sub-paragraphs (i) to (iii) above.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual cap for the Online Platform Cooperation CCTs in terms of monetary value. Since the highest of all applicable percentage ratios in respect of the Online Platform Cooperation Framework Agreement will be 5% or more and the total consideration is expected to exceed HK\$10,000,000, the Online Platform Cooperation Framework Agreement will be subject to compliance with the requirements set out under Chapter 14A of the Listing Rules including, among others, reporting, annual review, announcement, circular and independent shareholders' approval requirements. We have applied for, and the Stock Exchange has granted, waivers from these requirements as described below.

### 5. IP Cooperation Framework Agreement

#### *Description of the Agreement*

On October 21, 2017, Shanghai Shengting (for itself and on behalf of other members of our Group) and Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) entered into a framework agreement (the "IP Cooperation Framework Agreement") relating

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to the cooperation in the content adaptation of our literary works and/or distribution of products adapted from these literary works (the “**IP Cooperation CCTs**”). Such IP Cooperation CCTs shall exclude any transactions which involve the formation of a joint venture entity in any form or other form of joint arrangement in connection with or for the purpose of the adaptation of intellectual property rights to our literary works. If such joint venture entity is a subsidiary of Tencent, any type of cooperation contemplated by the IP Cooperation CCTs with such joint venture entity will be subject to the annual cap as further described below.

The IP Cooperation Framework Agreement only covers IP Cooperation CCTs entered into between us and any member of the Retained Tencent Group and does not cover any transaction between us and any associates of Tencent (whether with or without the involvement of any member of the Retained Tencent Group). We will comply with the Listing Rules in respect of the entering into of the transactions for adaptation of our intellectual property rights to our literary works with associates of Tencent separately and will not aggregate such transactions with the transactions contemplated under the IP Cooperation Framework Agreement.

Forms of cooperation under the IP Cooperation Framework Agreement include but are not limited to the following:

- Adaptation by the Retained Tencent Group of our literary works into movies, television series, games or animations; and
- Licensing by us of broadcasting rights of animations or television series products adapted from our literary works to the Retained Tencent Group.

The relevant parties may agree on the following commercial arrangements pursuant to the IP Cooperation CCTs:

- Fixed payment from the licensee to the licensor;
- Revenue/profit sharing between the parties; and
- A mix of the foregoing two commercial arrangements.

The term of the IP Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

### *Annual Cap*

The revenue derived from the IP Cooperation CCTs during one financial year shall not exceed 12% of the audited revenue of our Group in respect of the immediate preceding financial year. This is derived mainly through a projection of an expected annual increase of approximately 20% from the estimated transaction amount under the IP Cooperation CCTs for the year ending December 31, 2017 as a percentage to the total audited revenue of the Group for the year ended December 31, 2016, and

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taking into account (i) the market leading position of the Retained Tencent Group in the area of social and communication platforms and media platforms in the PRC Internet and social network industry, (ii) the expected increase in the monetization value and number of our Group's intellectual properties, and (iii) the rapid growth in intellectual property adaptation market.

### *Reasons for the Transactions*

We generate revenues by monetizing our vast literary contents in various manners, including, among others, copyright licensing for adaptation of our literary works sourced from our online community into films, television and web series, PC and mobile games and animations. The Retained Tencent Group is a leading player in the Internet, social media and entertainment industries in the PRC. We expect cooperation with the Retained Tencent Group relating to the IP Cooperation CCTs will maximize the commercial value of our literary works and further enhance our business growth.

### *Pricing Policies*

The commercial arrangements to be agreed between us and the Retained Tencent Group will vary from project to project and will be determined by taking into account the following factors:

- (i) various commercial factors such as the nature, popularity and commercial potential of the subject project and market practice for similar projects;
- (ii) whether the IP Cooperation CCTs may involve other third parties (such as downstream production and distribution partners, financial investors and writers), which depend on the subject of the content adaptation and the value that the counterparties are able to bring to the cooperation; and
- (iii) the range of ancillary rights to be agreed such as co-investment rights and/or co-development rights in relation to products to be adapted from the literary works among all or certain cooperating business partners.

Our designated business development team comprising certain personnel responsible for overseeing our intellectual property operations (the “**Business Development Team**”) will seek to solicit cooperation with other Independent Third Parties to the extent practicable and compare the commercial terms (including but not limited to licensing value of the subject intellectual property, profit/revenue sharing arrangement, terms of cooperation and availability of co-investment or co-development right) offered by those Independent Third Parties with those offered by the Retained Tencent Group. In making the decision as to whether we should cooperate with the Retained Tencent Group (whether with or without involvement of other third parties), other factors (beside the aforementioned commercial terms) that the Business Development Team will consider include but will not be limited to the revenue or profit that may be brought by the proposed transactions, production capability, distribution channels (and their end-user/customer base) and financial resources of the



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counterparties. We will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject intellectual properties can be maximized and the relevant IP Cooperation CCTs are in the best interests of our Company and our Shareholders as a whole.

### *Historical Amounts and Basis for Not Setting Monetary Annual Caps*

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amounts of our revenue generated through the IP Cooperation CCTs were RMB1.0 million, RMB19.0 million, RMB46.8 million and RMB56.6 million, respectively.

With respect to the IP Cooperation CCTs that prescribe payment of fixed licensing fees without revenue/profit sharing arrangements, adoption of monetary annual caps is unsuitable for this type of transactions due to the following reasons:

- (i) we have limited visibility on the number of intellectual property rights that will be licensed to the Retained Tencent Group or become a subject of cooperation with the Retained Tencent Group in these transactions as:
  - i. both existing and newly originated intellectual properties on our platform are available and potentially suitable for licensing or adaptation, and the number of such intellectual properties may increase significantly in the future in line with the growth in our business;
  - ii. for those intellectual properties that are agreed to be licensed for a fixed period of time, they will become available for licensing again after the licensing period expires; and
  - iii. the number of intellectual property rights involved in this type of transactions will also depend on factors such as the ever-evolving market demands and end-users' preferences for entertainment products which are outside of our or the Retained Tencent Group's control;
- (ii) we expect that the demand for the licensing or acquisition of intellectual property rights to our literary works will increase in the future as:
  - i. the intellectual property licensing industry in the PRC is still in an early phase and the demand may increase significantly in the future; and
  - ii. the Retained Tencent Group, being a leading player in the Internet, social network and media entertainment industries in the PRC, may have increasing yet unpredictable demand for a wide variety of intellectual properties that may be used for the development of adapted end-products for the consumption by its end-users or customers;

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- (iii) neither we nor the Retained Tencent Group has full control over the commercial terms of certain of these transactions due to the co-existing rights owned by our contracted writers who contributed these intellectual properties and have retained certain commercial rights such as rights to revenue/profit sharing for products adapted from their intellectual properties;
- (iv) due to the uniqueness of each intellectual property right (e.g. the popularity of certain intellectual property right), it would be extremely difficult to assign any reasonable or justifiable commercial value to them before they are open for bidding in the open market or being utilized for commercial use. In practice, we are only able to determine the values of intellectual property rights to be licensed mainly through formal or informal bidding processes, and inquiries from and negotiations with content adaptation partners. It is therefore impossible for us to determine the values of intellectual property rights in advance;
- (v) historically the values of the intellectual property rights to literary works vary to a great extent:
  - i. according to Frost & Sullivan, the value of a single intellectual property right to a particular literary work can vary from a few thousands to millions in RMB in today's intellectual property market and there is a lack of industry standards for the pricing of intellectual properties;
  - ii. our top 20 historical licensing values for a single intellectual property right varied from RMB3 million to RMB29 million in 2016;
  - iii. our historical licensing values for a single intellectual property right varied from RMB5,000 to RMB29 million throughout 2015 and 2016; and
  - iv. the sheer diversity in terms of types or forms of end-products adapted from the intellectual property rights (e.g. films, television and web series, PC and mobile games or animations) also contributed to the extreme disparity between the most valuable intellectual property rights and the least valuable ones;
- (vi) given that there may be an increasing number of future IP Cooperation CCTs, it would be unduly burdensome if we are required to comply with the disclosure, announcement, circular and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules each time we enter into such transactions with the Retained Tencent Group;
- (vii) adoption of fixed monetary annual caps for this type of transactions would impose an arbitrary ceiling on the revenue that we could derive from this type of business cooperation and will hinder us from undertaking transactions that can maximize the commercial values of the intellectual property rights relevant to this type of transaction in a timely and efficient manner;

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- (viii) we expect to derive our long-term revenue growth partly through monetization of our intellectual properties. Should we be made subject to the disclosure, announcement, circular and/or independent shareholders' approval requirement under Chapter 14A of the Listing Rules each time we enter into such transactions with the Retained Tencent Group, we will be placed in an extremely disadvantageous position in terms of competition with our peers when it comes to cooperation with the Retained Tencent Group, one of the leading players in the Internet, social network and media entertainment industries in the PRC; and
- (ix) the factors set out in sub-paragraphs (vii) to (viii) above will therefore prejudice our Company and our Shareholders' interests as a whole.

With respect to the IP Cooperation CCTs that have revenue/profit sharing arrangements, adoption of monetary annual caps is unsuitable for this type of transactions due to the following reasons:

- (i) similar to the IP Cooperation CCTs that prescribe payment of fixed licensing fees without revenue/profit sharing arrangements, neither the Retained Tencent Group nor we will have any control over or visibility of the revenue or profit to be generated from each cooperation project as it will depend on various factors, including but not limited to, the popularity and commercial potential of our intellectual property, scope of adaptation format(s) (e.g. films, television and web series, PC and mobile games or animations), length of adaptation and monetization cycle (i.e., if a particular literary work that is adapted into a television series proves to be particularly successful, it may result in additional derivative works which would derive additional ongoing revenue streams), timing and actual return from such cooperation. If the adaptation of a particular literary work proves to be extremely popular, it would be impracticable for us to halt any further monetization of that literary work in order for us to seek independent shareholders' approval for any further monetization;
- (ii) unlike the Online Platform Cooperation CCTs, it is practically impossible to set a prescribed profit/revenue split between the Retained Tencent Group and us that would uniformly apply to all forms of the IP Cooperation CCTs under the IP Cooperation Framework Agreement because:
- (a) the commercial terms of the IP Cooperation CCTs (including the underlying revenue/profit split among the parties to the cooperation) do not have any identifiable market rates and will always be subject to negotiations between the Retained Tencent Group and us as well as other potential counterparties which may be involved (such as production companies, domestic and international distributors, television networks, online and offline advertisement and financing parties) on a project by project basis;
- (b) there may be a number of underlying revenue/profit streams that may require different revenue/profit splits between the Retained Tencent Group, us, as well as potentially other third party cooperation partners or investors, depending on the format of the adapted products and the potential derivative works; and

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## CONNECTED TRANSACTIONS

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- (c) the relevant parties may agree on different forms of revenue/profit split or other commercial arrangements that are impossible to be formulated in advance as this also depends on the particular business needs and circumstances.

Our Directors are of the view that the audited revenue of our Group is an appropriate parameter to use in estimating the annual caps of the IP Cooperation CCTs. Our revenue is primarily dependent on (a) the scope and quality of our literary content library and (b) the size of user base and level of user engagement. The more the number and the higher the popularity of the literary titles we have, the higher potential there is for us to monetize our literary titles for content adaptation into other forms such as films, television and web series, games, and animation, etc. Our revenue is an objective measure of the number of our literary titles through which we generate revenue as well as the quality and popularity of our literary titles as evidenced by users' willingness to pay and read these literary titles. The total revenue would therefore form a good basis for us to estimate the likely number of available intellectual properties for content adaptation and to assess the potential licensing value of these available intellectual properties in a given year.

Our Directors are also of the view that the percentage of 12% used to calculate the annual cap is fair and reasonable and has been estimated with reference to the following factors:

- (i) the historical revenues generated through the IP Cooperation CCTs (for each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were RMB1.0 million, RMB19.0 million, RMB46.8 million and RMB56.6 million, respectively) are not indicative of and should not be used as a reference to estimate the size and volume of IP Cooperation CCTs in the future as we only started to expand our intellectual property operations business in 2015 and started with adaptation of our literary works into animations in 2015. Our Directors believe that our intellectual property operations business is expected to undergo significant growth in the foreseeable future;
- (ii) it is estimated that the transaction amounts under the IP Cooperation CCTs for the year ending December 31, 2017 will account for approximately 8.5% of the total audited revenue of our Group for the year ended December 31, 2016 taking into account the existing contracts entered into between the Retained Tencent Group and us as well as the contracts that are under negotiation and are expected to be entered into between the Retained Tencent Group and us under the IP Cooperation CCTs;
- (iii) the expected increase in the number of our intellectual properties available for licensing and adaptation and the expected increase in monetization value of our intellectual properties that are suitable for adaptation as demonstrated by the increase in our literary titles from 7.1 million as of December 31, 2015 to 8.4 million as of December 31, 2016 and further to 9.6 million as of June 30, 2017; and
- (iv) the expected rapid growth in the intellectual property adaptation market based on the information provided by Frost & Sullivan that the CAGR of the intellectual property adaptation market (including PC and mobile games, television programs, web programs, films, comics and animations) from 2016 to 2020 is forecasted to be in the range of approximately 10% to 25%.

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We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual cap in terms of monetary value and will instead be determined by reference to a percentage of the prior financial year's revenue as described above. Since the highest of all applicable percentage ratios in respect of the IP Cooperation Framework Agreement will be 5% or more and the total consideration is expected to exceed HK\$10,000,000, the IP Cooperation Framework Agreement will be subject to compliance with the requirements set out under Chapter 14A of the Listing Rules including, among others, reporting, annual review, announcement, circular and independent shareholders' approval requirements. We have applied for, and the Stock Exchange has granted, waivers from these requirements as described below.

### 6. Contractual Arrangements

#### *Background*

As disclosed in the section headed "Contractual Arrangements" in this document, due to regulatory restrictions on foreign ownership in the PRC, we conduct a substantial portion of our business through our Consolidated Affiliated Entities in the PRC. We do not hold any equity interests in our Consolidated Affiliated Entities which are held by Litong and Ningbo Meishan Yuebao. The Contractual Arrangements among Shanghai Yuechao, Shanghai Shengting, the PRC Holdcos and the shareholders of the PRC Holdcos enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Shanghai Yuechao and Shanghai Shengting to the PRC Holdcos; (ii) exercise effective control over our Consolidated Affiliated Entities through the PRC Holdcos; and (iii) hold an exclusive option to purchase all or part of the equity interests in the PRC Holdcos when and to the extent permitted by PRC laws.

See the section headed "Contractual Arrangements" in this document for detailed terms of the Contractual Arrangements.

#### *Listing Rules Implications*

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as two of the parties to the Contractual Arrangements, namely Litong and Ningbo Meishan Yuebao, are connected persons. Litong is accounted as a subsidiary of Tencent, one of our Controlling Shareholders, and is therefore an associate of Tencent. Ningbo Meishan Yuebao is owned as to 83.88% by Mr. Wu Wenhui, one of our Directors, and is therefore an associate of Mr. Wu Wenhui.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered

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## CONNECTED TRANSACTIONS

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into, among others, by any of our PRC Holdcos and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders’ approval requirements.

### WAIVER APPLICATIONS

#### **The Promotion Cooperation Framework Agreement, the Payment Services Cooperation Framework Agreement and the Cloud Services and Technical Services Framework Agreement**

In relation to the Promotion Cooperation Framework Agreement, the Payment Services Cooperation Framework Agreement and the Cloud Services and Technical Services Framework Agreement, since the highest applicable percentage ratio is expected to be 0.1% or more but less than 5%, the transactions contemplated thereunder are exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders’ approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of these transactions, provided that the total values of these transactions for each of the three years ending December 31, 2017, 2018 and 2019 will not exceed the relevant proposed annual caps above.

#### **The Online Platform Cooperation Framework Agreement and the IP Cooperation Framework Agreement**

In relation to the Online Platform Cooperation Framework Agreement and the IP Cooperation Framework Agreement (the “**Relevant Agreements**”), we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the announcement requirements, the circular (including the opinion and recommendation from an independent financial advisor) requirements, the independent shareholders’ approval requirements, and the annual monetary cap requirements for the Relevant Agreements pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (a) we will disclose in our subsequent annual and interim reports (i) a clear description of the bases for calculating the revenue derived from each of the Relevant Agreements, (ii) the number of underlying transactions under each of the Relevant Agreements, (iii) a summary of the transactions undertaken pursuant to the Relevant Agreements, (iv) the actual transaction amounts of the Online Platform CCTs and the IP Cooperation CCTs, (v) the actual revenue sharing percentage for the transactions under the Online Platform

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## CONNECTED TRANSACTIONS

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Cooperation Framework Agreement during the financial year, and (vi) the amount of revenue derived from the transactions under the IP Cooperation Agreements during the financial year as a percentage of our Group's audited revenue in the immediate preceding year;

- (b) our independent non-executive Directors will review the underlying transactions entered into pursuant to the Relevant Agreements on an annual basis and confirm in our annual reports the matters set out in Rule 14A.55 of the Listing Rules;
- (c) we will comply with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the Relevant Agreements;
- (d) we will engage an external auditor to report on, among other things, transactions contemplated in the Relevant Agreements pursuant to Rule 14A.56 of the Listing Rules. We will also ensure that the Retained Tencent Group allow the auditors sufficient access to our records for the purpose of reporting on the transactions contemplated in the Relevant Agreements;
- (e) we and our Board will ensure that the relevant Online Platform Cooperation CCTs and IP Cooperation CCTs are undertaken in accordance with the terms of the Relevant Agreements and will use our best endeavors to comply with the terms of the Relevant Agreements and the Listing Rules requirements applicable to the Relevant Agreements to the extent not waived by the Stock Exchange;
- (f) we will disclose in this document (i) the background of entering into the Relevant Agreements, (ii) the salient terms of the Relevant Agreements, (iii) the grounds of application for waivers set out in the final waiver application(s) submitted to the Stock Exchange, and (iv) our Directors' and the Joint Sponsors' views on the fairness and reasonableness of the Relevant Agreements as a whole;
- (g) we will implement internal procedures so as to ensure that the Online Platform Cooperation CCTs are undertaken in accordance with the terms of the Online Platform Cooperation Framework Agreement and the underlying transaction agreements entered into pursuant to or governed by the Online Platform Cooperation Framework Agreement. Our executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the relevant internal departments to discuss issues relating to the Online Platform Cooperation CCTs or any potential deviations from the terms of the Online Platform Cooperation Framework Agreement and the underlying transaction agreements);
- (h) with regard to the IP Cooperation Framework Agreement, we will implement internal procedures for the Business Development Team to follow to ensure that the relevant requirements will be duly complied with. Similar to the Online Platform Cooperation



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## CONNECTED TRANSACTIONS

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Framework Agreement, our executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the Business Development Team and inquiries into the transactions undertaken pursuant to the IP Cooperation Framework Agreement);

- (i) the amounts that we pay to the Retained Tencent Group pursuant to the Online Platform Cooperation Framework Agreement will not exceed 30% of the Net Proceeds;
- (j) the revenue derived from the IP Cooperation CCTs during one financial year will not exceed 12% of the audited revenue of our Group in respect of the immediate preceding financial year; and
- (k) to keep our Shareholders and public investors informed of the monetary annual cap for the IP Cooperation CCTs for a given year, we will issue an announcement on the monetary annual cap after we issue the results announcement for the immediate preceding year (which will set out our audited total revenue for that year).

### **The Contractual Arrangements**

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) ***No change without independent non-executive Directors' approval***

No change to the Contractual Arrangements (including with respect to any fees payable to Shanghai Yuechao and Shanghai Shengting thereunder) will be made without the approval of our independent non-executive Directors.

(b) ***No change without independent Shareholders' approval***

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

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## CONNECTED TRANSACTIONS

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(c) *Economic benefits flexibility*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shanghai Yuechao and Shanghai Shengting by the Consolidated Affiliated Entities under the Exclusive Business Cooperation Agreements, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

(d) *Renewal and reproduction*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) *Ongoing reporting and approvals*

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group,

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## CONNECTED TRANSACTIONS

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and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our Consolidated Affiliated Entities will be treated as our Company’s subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements (as defined above), (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our Consolidated Affiliated Entities in any New Intergroup Agreements, and (iii) the requirement to limit the term of any New Intergroup Agreement to three years or less, for so long as Shares are listed on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that the consolidated affiliated entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of the consolidated affiliated entities and its associates will be treated as connected persons of our Company (excluding for this purpose, our consolidated affiliated entities), and transactions between these connected persons and our Group (including for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

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## CONNECTED TRANSACTIONS

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### **DIRECTORS' CONFIRMATION**

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above have been and will be entered into in the ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed monetary annual caps or alternative caps (as applicable) in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### **JOINT SPONSORS' CONFIRMATION**

Based on the documentation and data provided by our Company and participation in due diligence and discussions with us, the Joint Sponsors believe that the aforesaid non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Company on normal commercial terms which are fair and reasonable, and in the interests of our Company and our Shareholders as a whole, and the proposed monetary annual caps or alternative caps (as applicable) in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Upon Listing, our Board will consist of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors:

| Name                                      | Age | Position  | Roles and responsibilities                             | Date of joining our Group | Date of appointment as a Director |
|---|-----|---|--|---------------------------|-----------------------------------|
| Mr. Wu Wenhui<br>(吳文輝) .....              | 39  | Executive Director and co-chief executive officer | Overall strategic planning and business direction      | October 2004              | November 6, 2014                  |
| Mr. Liang Xiaodong<br>(梁曉東) .....         | 40  | Executive Director and co-chief executive officer | Overall strategic planning and business direction      | March 2009                | November 6, 2014                  |
| Mr. James Gordon Mitchell .....           | 43  | Non-executive Director and Chairman of the Board  | Provide professional advice to the Board               | June 2017                 | June 29, 2017                     |
| Ms. Li Ming<br>(李明).....                  | 41  | Non-executive Director                            | Provide professional advice to the Board               | October 18, 2017          | October 18, 2017                  |
| Mr. Lin Haifeng<br>(林海峰) .....            | 41  | Non-executive Director                            | Provide professional advice to the Board               | November 2014             | November 6, 2014                  |
| Mr. Yang Xiang Dong (楊向東) ..              | 52  | Non-executive Director                            | Provide professional opinion and judgment to the Board | May 2016                  | May 9, 2016                       |
| Ms. Yu Chor Woon Carol<br>(余楚媛) .....     | 55  | Independent non-executive Director                | Provide independent opinion and judgment to the Board  | the date of this document | the date of this document         |
| Ms. Leung Sau Ting Miranda<br>(梁秀婷) ..... | 50  | Independent non-executive Director                | Provide independent opinion and judgment to the Board  | the date of this document | the date of this document         |
| Mr. Liu Junmin<br>(劉駿民) .....             | 67  | Independent non-executive Director                | Provide independent opinion and judgment to the Board  | the date of this document | the date of this document         |

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Wu Wenhui** (吳文輝), aged 39, is an executive Director and co-chief executive officer of our Group. Mr. Wu is responsible for the overall strategic planning and business direction of the Group. Between January 2014 and March 2015, Mr. Wu was the chief executive officer of Tencent Literature. Between October 2004 and March 2013, Mr. Wu served as the chief executive officer of *qidian.com* and subsequently the president of Shanda Literature Corporation. Prior to that, he worked as a programmer at Founder Technology Group Co., Ltd. (方正科技集團股份有限公司) between July 2000 and October 2001. Mr. Wu received his bachelor's degree in computer software engineering from Peking University in July 2000.

Mr. Wu currently holds directorships in the following members of the Group:

- Cloudary HK as a director since November 2014;
- China Reading HK as a director since November 2014;
- Shanghai Shengting as an executive director since July 2015;
- Shanghai Yuechao as a director since March 2015;
- Shanghai Yuewen as a director since June 2015;
- Shanghai Hongwen as an executive director since May 2016;
- Shanghai Xuanting as an executive director since December 2014;
- Wangwen Xinyue (北京網文欣閱科技有限公司) as an executive director since August 2016;
- Beijing Yuewen Science and Technology Co., Ltd. (北京閱聞科技有限公司) as a director since October 2014;
- Shengyun Information Technology as an executive director since July 2015;
- Xiaoxiang College as an executive director since December 2016;
- Tianjin Xuanting Information Technology Co., Ltd. (天津玄霆信息科技有限公司) as an executive director since June 2015;
- Suzhou Jingwei as an executive director since August 2016; and
- Shanghai Yuewen Television Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司) as an executive director since January 2017.

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## DIRECTORS AND SENIOR MANAGEMENT

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Over the past three years, Mr. Wu has not been a director of any listed companies.

**Mr. Liang Xiaodong (梁曉東)**, aged 40, is an executive Director and co-chief executive officer of our Group. Mr. Liang is responsible for the overall strategic planning and business direction of the Group. Mr. Liang has been a partner at TBP Consultant (HK) Limited since January 2014. Between November 2014 and March 2015, Mr. Liang was the chief executive officer of Shanda Literature Corporation. Between March 2009 and December 2013, Mr. Liang was the chief financial officer of Shanda Literature Corporation. Prior to that, he was an investment director and investment manager at Shanghai Shengda Network Development Co., Ltd. from September 2002 to July 2007.

Mr. Liang received his bachelor's degree in business management from East China University of Science and Technology in July 1998, his master's degree in economics from East China University of Science and Technology in March 2002 and his master's degree in business administration from Schulich School of Business, York University in February 2009.

Mr. Liang has held directorships in the following companies outside of the Group:

- Shanghai Ju Ang Investment Co., Ltd. (上海巨昂投資有限公司) as a director since April 2014.
- Yiyou Robot (Shanghai) Co., Ltd. (摯優機器人(上海)有限公司) as a director since January 2015; and
- Shanghai Jia Printing Culture Communication Co., Ltd. (上海嘉印文化傳播有限公司) as a non-executive director since March 2014.

Mr. Liang currently holds directorships in the following members of the Group:

- Cloudary as a director since November 2014;
- China Reading HK as a director since November 2014;
- Shanghai Yuechao as a director since March 2015;
- Shanghai Yüwen as a director since June 2015;
- Beijing Hongwen Museum Publishing Planning Co., Ltd. (北京弘文館出版策劃有限公司) as a director since October 2016;
- Beijing Yüwen Science and Technology Co., Ltd. (北京閱聞科技有限公司) as a director since October 2014;
- Tianjin Huawen Tianxia Book as a director since December 2014;
- Tianjin Zhongzhi Bowen Book as a director since December 2011;



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## DIRECTORS AND SENIOR MANAGEMENT

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- Tianjin Under Banyan as a director since December 2011;
- Ningbo Yuewen Wenxing Investment Management Co., Ltd. (寧波閱文文興投資管理有限公司) as an executive director since August 2016;
- Ningbo Meishan Bonded Port Area Xinrui Investment Co., Ltd. (寧波梅山保稅港區鑫銳投資有限公司) as an executive director since June 2016;
- Ningbo Xihe Investment Management Co., Ltd. (寧波熙和投資管理有限公司) as an executive director since March 2016; and
- Ningbo Yuemeng Investment Management Co., Ltd. (寧波悅盟投資管理有限公司) as an executive director since March 2016.

Over the past three years, Mr. Liang has not been a director of any listed companies.

### Non-executive Directors

**Mr. James Gordon Mitchell**, aged 43, is a non-executive Director. He has served as the chief strategy officer of Tencent since July 2011. From January 2000 to June 2011, he held various positions at Goldman Sachs including managing director.

Mr. Mitchell received his bachelor's degree in history from the University of Oxford in July 1995. Over the past three years, Mr. Mitchell has not been a director of any listed companies.

**Ms. Li Ming (李明)**, aged 41, is a non-executive director of our Company. Ms. Li joined the Retained Tencent Group in December 2014 and is serving as an assistant general manager of marketing and public relations department, films and television and copyright business department, interactive entertainment group (“IEG”) marketing platform department and IEG research and design department. Prior to joining the Retained Tencent Group, Ms. Li was a brand deputy director of the brand management department at Proctor & Gamble (Guangzhou) Ltd. (廣州寶潔有限公司) from May 2000 until September 2014. Before that, Ms. Li worked at China Construction Bank Corporation (中國建設銀行) from July 1997 until April 2000.

Ms. Li received her bachelor's degree in international finance from Nanjing University (南京大學) in the PRC in July 1997. Over the past three years, Ms. Li has not been a director of any listed companies.

**Mr. Lin Haifeng (林海峰)**, aged 41, is a non-executive Director. He has been General Manager of the Merger and Acquisitions Department at Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司) since November 2010. Mr. Lin has been an executive director of Huayi Tencent Entertainment Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 00419), since February 2016.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Lin received his bachelor's degree in industrial foreign trade from the School of Foreign Economics and Trade (對外經濟貿易學院) at Zhejiang University (浙江大學) in June 1997 and his master's degree in business administration from the Wharton School of the University of Pennsylvania in May 2003.

Mr. Lin currently holds directorships in the following members of the Group:

- China Reading HK as a director since November 2014;
- Cloudary as a director since June 2017;
- Shanghai Yuechao as a director since March 2015;
- Shanghai Yuewen as a director since March 2014;
- Shanghai Hongwen as a director since May 2017; and
- Beijing Yuewen Science and Technology Co., Ltd. (北京閱聞科技有限公司) as a director since February 2015.

**Mr. Yang Xiang Dong (楊向東)**, aged 52, is a non-executive Director. Mr. Yang has been the managing director and the co-head of Carlyle Asia Partners, the flagship buyout funds of The Carlyle Group in Asia, since March 2001. He has also been the chairman of Carlyle Asia (ex-Japan) and has assumed leadership of all corporate private equity investment activities in Asia (ex-Japan), which includes buyout, growth, and RMB-focused mandates, since January 2017. Prior to joining Carlyle, Mr. Yang worked for Goldman Sachs from 1992, and was serving as managing director and co-head of PIA Asia Ex Japan when he left in 2001. Mr. Yang has served as an independent non-executive director of SmarTone Telecommunications Holdings Ltd., whose shares are listed on the Stock Exchange (stock code: 0315), since December 2003.

Mr. Yang received his bachelor's degree in economics from Harvard University in June 1987 and his M.B.A. from Harvard Business School in June 1992. He has served as a director of China Reading HK, a subsidiary of our Company, since May 2016.

### **Independent Non-executive Directors**

**Ms. Yu Chor Woon Carol (余楚媛)**, aged 55, has been appointed as an independent non-executive Director with effect from the date of this document. Ms. Yu has been the chief executive officer of Virtues Holding Limited since February 2017. Between March 2004 and July 2016, Ms. Yu was the president and chief financial officer of Sohu.com Inc., whose shares are listed on the NASDAQ (stock symbol: SOHU). From December 2000 to January 2002, she worked at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited), whose shares were listed on the Shenzhen Stock Exchange and the Stock Exchange with stock codes 000921 and 00921 respectively, holding positions including director, company secretary and vice president for finance, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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Over the past three years, Ms. Yu has held positions in the following publicly listed companies:

- Changyou.com Limited, a company whose shares are listed on the NASDAQ (stock symbol: CYOU), as director from February 2015 to June 2016; and
- China Distance Education Holdings Limited, whose shares are listed on the NASDAQ (stock symbol: DL) as an independent non-executive director since July 2008.

Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) in June 1985.

**Ms. Leung Sau Ting Miranda (梁秀婷)**, aged 50, has been appointed as an independent non-executive Director with effect from the date of this document. Between September 2001 and November 2016, Ms. Leung was a partner at Slaughter and May in London, maintaining an international practice focusing on mostly cross-border transactions. Prior to that, she was an associate in the firm's Hong Kong and London offices from September 1992 to September 2001, after being a trainee at the firm's London office from September 1990 to September 1992. Ms. Leung has also been a director of the Lion Academy Trust since September 2015 and currently serves as the Chair of the Lion Academy Trust.

Ms. Leung qualified as a solicitor in England & Wales in December 1992, and as a solicitor in Hong Kong in August 1993. She received her bachelor's degree in arts from Oxford University in June 1989.

Over the past three years, Ms. Leung has not been a director of any listed companies.

**Mr. Liu Junmin (劉駿民)**, aged 67, has been appointed as an independent non-executive Director with effect from the date of this document. Mr. Liu taught in Tianjin University of Finance and Economics and served as lecturer from September 1982 to December 1992. He has been teaching in the Department of Economics of Nankai University since December 1992, as associate professor from December 1993 to December 1998, and as professor since December 1998.

Mr. Liu previously held and currently holds positions in the following publicly listed companies:

- Suzhou Jinfu New Material Co., Ltd., a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300128), as an independent non-executive director from March 2008 to June 2014;
- AVIC Electromechanical Systems Co., Ltd., a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002013), as an independent non-executive director since February 2013;
- Chinese People Holdings Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 681), as an independent non-executive director since April 2005;

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## DIRECTORS AND SENIOR MANAGEMENT

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- Yingli Green Energy Holdings Co., Ltd., a company whose shares are listed on the New York Stock Exchange (stock symbol: YGE), as an independent director since August 2008;
- China Huarong Asset Management Co., Ltd., a company whose shares are listed on the Stock Exchange (stock code: 2799), as an independent non-executive director since June 2015; and
- Tianjin FAW Xiali Automobile Co., Ltd., a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000927), as an independent director since November 2016.

Mr. Liu graduated from Nankai University, majoring in economics, and received his bachelor's degree in economics in July 1982, master's degree in economics in July 1988 and doctorate degree in economics in July 1994.

### SENIOR MANAGEMENT

The following table provides information about members of our senior management (besides our executive Directors):

| Name                             | Age | Position                 | Roles and responsibilities                            | Date of joining<br>our Group |
|----------------------------------|-----|--------------------------|---|------------------------------|
| Mr. Shang Xuesong<br>(商學松) ..... | 42  | President                | Overall operation of the Group                        | September 2004               |
| Mr. Lin Tingfeng<br>(林庭鋒) .....  | 40  | Senior vice<br>president | Overseeing original content and team management       | September 2004               |
| Mr. Zhang Rong<br>(張蓉) .....     | 39  | Senior vice<br>president | Publishing, monthly subscriptions and team management | January 2014                 |

**Mr. Shang Xuesong (商學松)**, aged 42, is our president and joined our Group in September 2004. Mr. Shang is primarily responsible for the overall operation of the Group. Between January 2014 and March 2015, Mr. Shang was president of Tencent Literature. Between September 2004 and March 2013, Mr. Shang was general manager of *qidian.com* operated by Shanda Literature Corporation. Prior to that, he was a faculty member and teaching manager at the Shanghai University of International Business and Economics (上海對外經貿大學) from July 1994 to September 2004.

Mr. Shang currently holds directorships in the following members of the Group:

- Beijing Shengda Xingyao Television Culture Co., Ltd. (北京盛大星耀影視文化有限公司) as an executive director since June 2015;

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## DIRECTORS AND SENIOR MANAGEMENT

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- Beijing Hongxiu as a director since August 2016;
- Beijing Reading Technology Co., Ltd. (北京閱言科技有限公司) as an executive director since September 2016;
- Shenzhen Lazy Online as a director since February 2016; and
- Shenzhen Lazy Technology Co., Ltd. (深圳市懶懶科技有限公司) as a director and chairman of the board of directors since March 2015.

Mr. Shang graduated from the East China University of Political Science and Law after completing a diploma course (專科課程) in economic law in July 1999. Over the past three years, he has not been a director of any listed companies.

**Mr. Lin Tingfeng (林庭鋒)**, aged 40, is our senior vice president and joined our Group in September 2004. Mr. Lin is primarily responsible for overseeing original content and team management. Between January 2014 and March 2015, Mr. Lin was a senior vice president at Tencent Literature. Prior to that, he was a senior vice president at *qidian.com* operated by Shanda Literature Corporation, from September 2004 to March 2013. Mr. Lin received his bachelor's degree in international economics and trade from Shanghai Dianji University (上海電機學院) in January 2017. Over the past three years, Mr. Lin has not been a director of any listed companies.

**Mr. Zhang Rong (張蓉)**, aged 39, is our senior vice president and joined our Group in January 2014. Mr. Zhang is primarily responsible for publishing, monthly subscriptions and team management. Between January 2014 and March 2015, Mr. Zhang was a senior vice president at Tencent Literature. Prior to that, he was a product manager and assistant general manager at Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司) from June 2004 to January 2015. Mr. Zhang received his bachelor's degree in economic management from Shandong University of Finance and Economics (山東財經大學) in July 2000.

Mr. Zhang has been an executive director and manager of Tianjin Ruinuo Technology Co., Ltd. (天津睿諾科技有限公司) and the manager of Wangwen Xinyue since August 2016, both of which are subsidiaries of our Company. Over the past three years, Mr. Zhang has not been a director of any listed companies.

### JOINT COMPANY SECRETARIES

**Mr. Zhao Jincheng (趙錦程)**, one of our joint company secretaries, has been the general manager of investment of our Group since March 2015. Between July 2007 and February 2015, Mr. Zhao served at TBP Advisory Limited (上海摯信投資諮詢有限公司) as Investment Manager and Director. Prior to this, he worked at Shanghai Shengda Network Development Co., Ltd. (上海盛大網絡發展有限公司), a subsidiary of Shanda Interactive Entertainment Limited (previously listed on the NASDAQ with stock symbol SNDA) from January 2003 to July 2007, and was serving as vice manager of the investment department when he left the company. Mr. Zhao received his bachelor's degree in economics from Dongbei University of Finance and Economics in July 2000.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Ms. Lai Siu Kuen (黎少娟)**, one of our joint company secretaries, is a senior manager of the Listing Services Department of TMF Hong Kong Limited. She has over 16 years of professional and in-house experience in company secretarial field. She holds a bachelor's degree in accountancy and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. She is currently the joint company secretary of several companies whose shares are listed on the Stock Exchange, including Qingdao Port International Co., Ltd. (stock code: 6198) and Bank of Qingdao Co., Ltd. (stock code: 3866).

### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

For the details of the service contracts and appointment letters that we have entered into with our Directors, see the section headed "Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors' service contracts and appointment letters" in Appendix IV to this document.

The aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to our Directors in respect of the financial years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were RMB2.8 million, RMB31.5 million, RMB21.0 million and RMB7.0 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountant's Report in Appendix I to this document.

During the Track Record Period, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending December 31, 2017 is expected to be approximately RMB2.7 million.

The five highest paid individuals of our Group for the financial years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 included one Director, respectively, whose remuneration is included in the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the relevant Directors set out above. For the financial years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the remaining four highest paid individuals who are neither a Director nor chief executive of our Group were RMB6.5 million, RMB43.7 million, RMB29.4 million and RMB15.4 million, respectively.

During the Track Record Period, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

### CORPORATE GOVERNANCE

#### Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The audit committee comprises two independent non-executive Directors, namely Ms. Yu Chor Woon Carol and Ms. Leung Sau Ting Miranda, and one non-executive Director, namely Mr. Yang Xiang Dong. Ms. Yu, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

#### Remuneration Committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration committee comprises one executive Director, namely Mr. Wu Wenhui, and two independent non-executive Directors, namely Ms. Yu Chor Woon Carol and Ms. Leung Sau Ting Miranda. Ms. Leung is the chairman of the committee.

#### Nomination Committee

We have established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises one non-executive Directors, namely Mr. James Gordon Mitchell, and two independent non-executive Directors, namely Ms. Yu Chor Woon Carol and Mr. Liu Junmin. Mr. Mitchell is the chairman of the committee.

#### Strategy and Investment Committee

We have established a strategy and investment committee in order to monitor the strategy and business plans of our Company. The primary duties of the strategy and investment committee are to review the execution of business plans and performance indicators of the group, and to advise on and review budget proposals. The strategy and investment committee comprises Mr. Wu Wenhui, Mr. Liang Xiaodong, Mr. James Gordon Mitchell, Ms. Li Ming and Mr. Lin Haifeng. Mr. Wu is the chairman of the committee.



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## DIRECTORS AND SENIOR MANAGEMENT

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### MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the principal business operations of our Group are conducted in the PRC, members of our senior management (other than Ms. Lai Siu Kuen, a joint company secretary of our Company, who is ordinarily resident in Hong Kong) are, and are expected to continue to be, based in the PRC. Further, as our executive Directors have a vital role in our Group's operations, it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong.

We have applied for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, see the section headed "Waivers from Compliance with the Listing Rules" in this document.

### COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the "**Compliance Advisor**") pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Advisor will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Advisor shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

### CORPORATE GOVERNANCE CODE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code after the Listing.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons are expected to have an interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

(a) **Interest in the shares of our Company**

| Name of substantial shareholder                  | Number of<br>Shares/underlying<br>shares | Nature of interest                     | Approximate<br>percentage of<br>interest in our<br>Company |
|--|--|--|--|
| THL A13 <sup>(Note 1)</sup> .....                | 246,600,000                              | Beneficial interest                    | 27.21%   |
|  | 45,000,000                               | Interest in controlled<br>corporations | 4.96%  |
| Qinghai Lake <sup>(Note 1)</sup> .....           | 222,305,634                              | Beneficial interest                    | 24.53%   |
| Tencent <sup>(Note 2)</sup> .....                | 522,305,634                              | Interest in controlled<br>corporations | 57.62%   |
| Luxun <sup>(Note 3)</sup> .....                  | 49,713,624                               | Beneficial interest                    | 5.48%  |
| The Carlyle Group L.P. <sup>(Note 3)</sup> ..... | 86,401,364                               | Interest in controlled<br>corporations | 9.53%  |
| TB Partners <sup>(Note 4)</sup> .....            | 38,177,786                               | Beneficial interest                    | 4.21%  |
|  | 45,000,000                               | Interest in controlled<br>corporations | 4.96%  |

*Notes:*

- (1) THL A13 and Qinghai Lake are wholly-owned subsidiaries of Tencent. Under the SFO, THL A13 is deemed to be interested in the 45,000,000 Shares held by Deal Plus, a British Virgin Islands organised company owned as to 48.9% by THL A13 which in turn is a wholly-owned subsidiary of Tencent.
- (2) Under the SFO, Tencent is deemed to be interested in (i) the 468,905,634 Shares directly held by THL A13 and Qinghai Lake in aggregate, (ii) the 45,000,000 Shares held by Deal Plus, a British Virgin Islands organised company owned as to 48.9% by THL A13 which in turn is a wholly-owned subsidiary of Tencent, and (iii) the 8,400,000 Shares held by Tencent Growthfund, which is another wholly-owned subsidiary of Tencent.
- (3) Each of Laoshe (holding 36,687,740 Shares immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised) and Luxun is owned by Carlyle Asia Partners IV, L.P. as to 93.66%. CAP IV General Partner, L. P. is the general partner of Carlyle Asia Partners IV, L.P., while CAP IV, L.L.C. is the general partner of CAP IV General Partner, L.P.. Carlyle Asia Partners IV, L.P. and CAP IV General Partner, L.P. are limited partnerships established in the Cayman Islands. CAP IV, L.L.C. is a limited liability corporation established in the State of Delaware, the United States.

## SUBSTANTIAL SHAREHOLDERS

CAP IV, L.L.C. is wholly-owned by TC Group Cayman Investment Holdings Sub, L.P.. TC Group Cayman Investment Holdings, L.P. is the general partner of TC Group Cayman Investment Holdings Sub, L.P.. Carlyle Holdings II L.P. is the general partner of TC Group Cayman Investment Holdings, L.P.. Carlyle Holdings II GP L.L.C. is in turn the general partner of Carlyle Holdings II L.P.. Carlyle Holdings II GP L.L.C. acts in accordance with the instructions of its managing member, The Carlyle Group L.P., which is a publicly traded entity listed on the NASDAQ Stock Exchange.

Under the SFO, the above entities of The Carlyle Group (except Laoshe and Luxun) are deemed to be interested in the 86,401,364 Shares held by Laoshe and Luxun.

- (4) TB Partners is a U.S.- dollar denominated Cayman Islands limited partnership fund managed by Trustbridge and its affiliates. Deal Plus is owned by TB Partners as to 36.10%. Under the SFO, TB Partners is deemed to be interested in the 45,000,000 Shares held by Deal Plus.

### (b) Substantial shareholders of other members of our Group

| Name of substantial shareholder   | Name of member of our Group   | Nature of interest | Approximate percentage interest held by the substantial shareholders |
|---|---|--------------------|--|
| Yang Jinyu (楊金鈺)  | Tianjin Shengda Tianfang Tingshu Information Technology Co., Ltd.<br>(天津盛大天方聽書信息技術有限公司) | Beneficial owner   | 20.33%   |
| Hou Haitao (侯海濤)  | Tianjin Zhongzhi Bowen Book   | Beneficial owner   | 10.45%   |
| Zeng Yihong (曾義紅)   | Tianjin Yuedu Network Technology Co., Ltd.<br>(天津悅讀網科技有限公司)                             | Beneficial owner   | 11.25%   |
| Zhang Baohua (張寶華)  | Tianjin Under Banyan  | Beneficial owner   | 49.00%   |
| Song Bin (宋斌)   | Shenzhen Lazy Online  | Beneficial owner   | 36.17%   |
| Liu Xiaosong (劉曉松)  | Shenzhen Lazy Online  | Beneficial owner   | 12.83%   |
| Song Bin (宋斌)   | Shenzhen Lazy Technology Co., Ltd. (深圳市懶懶科技有限公司)  | Beneficial owner   | 36.17%   |
| Liu Xiaosong (劉曉松)  | Shenzhen Lazy Technology Co., Ltd. (深圳市懶懶科技有限公司)  | Beneficial owner   | 12.83%   |
| Ningbo Zhixin Investment Management Partnership (Limited Partnership)<br>(寧波摯信投資管理合夥企業(有限合夥)) | Ningbo Yuwen Wenxing Investment Management Co., Ltd. (寧波閱文文興投資管理有限公司)                   | Beneficial owner   | 30%  |

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## SUBSTANTIAL SHAREHOLDERS

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| Name of substantial shareholder   | Name of member of our Group  | Nature of interest                 | Approximate percentage interest held by the substantial shareholders |
|---|--|------------------------------------|--|
| Ningbo Zhixin Investment Management Partnership (Limited Partnership)<br>(寧波摯信投資管理合夥企業(有限合夥)) | Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership)<br>(寧波閱文源動力文化產業投資合夥企業(有限合夥)) | Beneficial owner <sup>(note)</sup> | 25.06%   |
| Ma Zhongjun (馬中駿)   | Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership)<br>(寧波閱文源動力文化產業投資合夥企業(有限合夥)) | Beneficial owner <sup>(note)</sup> | 27.85%   |
| Hu Ming (胡明)  | Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership)<br>(寧波閱文源動力文化產業投資合夥企業(有限合夥)) | Beneficial owner <sup>(note)</sup> | 10.70%   |
| Richard Kong  | Gravity, LLC   | Beneficial owner                   | 10%  |

*Note:*

These are limited partner interests in Ningbo Yuewen Yuandongli Cultural Industries Investment Partnership (Limited Partnership) (寧波閱文源動力文化產業投資合夥企業(有限合夥)).

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering:

#### Authorized Share Capital

| Number of Shares      | Aggregate nominal value<br>of Shares (US\$) |
|-----------------------|---|
| <u>10,000,000,000</u> | <u>1,000,000</u>                            |

#### Issued Share Capital

The issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

| Number of Shares   | Description of Shares                           | Aggregate<br>nominal value of<br>Shares (US\$) | % of the issued<br>share Capital |
|--------------------|---|--|----------------------------------|
| 770,454,529        | Shares in issue as at the date of this document | 77,045.4529                                    | 85.00%                           |
| <u>135,962,710</u> | Shares to be issued under the Global Offering   | <u>13,596.27</u>                               | <u>15.00%</u>                    |
| <u>906,417,239</u> | Shares in total                                 | <u>90,641.7239</u>                             | <u>100.00%</u>                   |

### ASSUMPTIONS

The above table assume that the Global Offering becomes unconditional but does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

### RANKING

The Offer Shares will rank pari passu in all respects with all Shares currently in issue or to be issued as mentioned in this document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this document.

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## SHARE CAPITAL

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### CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See the section headed “Summary of the Constitution of our Company and the Companies Law — Summary of the Constitution of the Company — 2. Articles of Association — 2.5 Alteration of capital” in Appendix III to this document for further details.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering; and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “— General Mandate to Repurchase Shares” in this section.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See the section headed “Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 4. Resolutions of the Shareholders of Our Company dated October 18, 2017” in Appendix IV to this document for further details of this general mandate to allot, issue and deal with Shares.

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## SHARE CAPITAL

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### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering.

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 4. Resolutions of the Shareholders of Our Company dated October 18, 2017” in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 4. Resolutions of the Shareholders of Our Company dated October 18, 2017” in Appendix IV to this document for further details of the repurchase mandate.

### OUR RSU PLAN

The RSU Plan took effect on December 23, 2014 to reward the fidelity of the directors, executive officers, senior managers and employees of our Group and align their interests with those of the Shareholders. Each RSU is a conditional right to receive a Share at the end of the vesting period, subject to vesting conditions provided for under the RSU Plan. In order to allow release of Shares to beneficiaries upon vesting of each RSU under the RSU Plan, our Company has allotted and issued 40,409,091 Shares in aggregate to Link Apex and Peak Income which are holding the Shares on trust immediately prior to the completion of the Global Offering, representing 4.46% of the issued share capital upon completion of the Global Offering. A summary of the principal terms of the RSU Plan is set out in the section headed “Statutory and General Information — D. RSU Plan” in Appendix IV to this document.



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*You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed "Risk Factors" and "Business".*

*For the purpose of this section, unless the context otherwise requires, references to 2014, 2015 and 2016 refer to our financial years ended December 31 of such years, and reference to the first half of 2016 and 2017 refer to the six months ended June 30, 2016 and 2017. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

### OVERVIEW

We operate the leading online literature platform in China, possessing a deep pool of writer talent, an extensive library of exclusive original literary titles, and vast and engaged reader base. We have developed multiple channels for monetizing our content library, primarily through online reading, intellectual property operations and physical books. Our talented writer pool has created a deep and diverse library of literary titles, which underpins our monetization strategies by attracting a vast and engaged reader base and providing high quality contents for sub-licensing. As part of our content distribution system, we also operate two leading private physical book companies in China. See the section headed "Business" in this document for a detailed discussion of our business.

Our total revenues increased by 244.6% from RMB466.2 million in 2014 to RMB1.6 billion in 2015, and further increased by 59.1% to RMB2.6 billion in 2016, and our total revenues increased by 92.5% from RMB999.6 million in the six months ended June 30, 2016 to RMB1.9 billion in the six months ended June 30, 2017. We had a net profit of RMB30.4 million in 2016, compared with net losses of RMB21.1 million and RMB354.2 million in 2014 and 2015, respectively, and we had a net profit of RMB213.5 million in the six months ended June 30, 2017, compared with a net loss of RMB2.4 million in the six months ended June 30, 2016. Excluding the impacts of share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses and tax effects, we had an adjusted net profit of RMB302.8 million in six months ended June 30, 2017, an adjusted net loss of RMB44.8 million in the six months ended June 30, 2016, an adjusted net profit of RMB81.1 million in 2016, and an adjusted net loss of RMB94.2 million in 2015. See the paragraphs headed "— Consolidated Income Statement" and "— Non-IFRS Measures: Adjusted Operating Profit/(Loss), Adjusted EBITDA and Adjusted Net Profit/(Loss)" in this section. The growth of our business and our total revenues between 2014 and 2015 is primarily as result of our acquisition of Cludary at the end of 2014.

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We have entered into a number of transactions with the Retained Tencent Group, including (i) distribution of our literary works through the online platforms owned by the Retained Tencent Group; (ii) cooperation in the adaptation of our literary works and/or distribution of products adapted from these literary works; and (iii) certain other non-exempt continuing connected transactions. In relation to these transactions, we are of the view that we do not and will not significantly rely on the Retained Tencent Group. Please refer to the section headed “Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Operational Independence” for further details.

### **BASIS OF PRESENTATION**

We were established by Tencent and incorporated as an exempted liability company in the Cayman Islands on April 22, 2013.

Prior to our incorporation and the completion of the reorganization described below, our existing business, other than the businesses acquired in 2014, was operated through a number of entities controlled by Tencent. For the purpose of strengthening the literature business, the Tencent literature business, including relevant management and employees as well as operating assets and liabilities, was transferred to us effective on May 1, 2014 in exchange for the allotment and issue of 199,999,999 ordinary shares to entities controlled by Tencent. In addition, for the purpose of the reorganization, 55,000,000 ordinary shares of the Company were also allotted and issued upon the conversion of 55,000,000 preference shares of the Company. Immediately prior to the reorganization described above, the Tencent literature business was held and operated by a number of entities controlled by Tencent, and did not exist as a separate legally constituted group. We have not been involved in any business prior to and at the time of the reorganization. The transfer of the Tencent literature business from Tencent to us did not result in any change in the ultimate controlling party.

Our consolidated financial information is prepared by using the carrying values of the Tencent literature business from the perspective of Tencent to present the financial position and performance of the Tencent literature business on a standalone basis throughout the period. For the period from January 1, 2014 to April 30, 2014, our financial information is derived from the accounting records of Tencent. Our income statement for the period from January 1, 2014 to April 30, 2014 included all revenues, related costs, expenses and charges directly generated or incurred by us. Our statements of financial position include the assets and liabilities that are directly related and clearly identified to the Tencent literature business.

Our financial information has been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and is presented in Renminbi (“RMB”) unless otherwise stated. The businesses acquired by us in 2014 were business combinations accounted for using acquisition method. All of our intra-group transactions and balances are eliminated on consolidation. See the section headed “History, Reorganization and Corporate Structure” in this document for more details.

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

#### General Factors

Our business and operating results are affected by general factors affecting the broader Internet industry and the online literature industry in China, which include:

- China's overall economic growth and level of per capita disposable income;
- growth of mobile Internet usage and penetration rate;
- governmental policies and initiatives affecting the online literature industry;
- awareness and enforcement of intellectual property protection in China; and
- development of pan-entertainment industries in China and relevant governmental policies.

Unfavorable changes in any of these general industry conditions could negatively affect demand for our services and negatively and materially affect our results of operations.

#### Company Specific Factors

While our business is influenced by factors affecting the Internet and online literature industries in China generally, our results of operations are also affected by company specific factors, including the following major factors:

#### *Expansion of Our User Base, including Our Paying User Base, and Strengthening of User Engagement*

The size and engagement of our online user base are crucial for the proper functioning of our content creation feedback loop and content monetization efforts. A large and vibrant user base helps attract established and aspiring writers and generate high quality content, which drive the online traffic and transactions originating from our content. In the six months ended June 30, 2017, the average MAUs of our products and of our self-operated channels on Tencent products was 191.8 million.

Further growth of our online reading revenues will directly depend on our ability to convert our active users into paying users and increase the average revenue per paying user. In the six months ended June 30, 2017, the average MPUs of our products and of our self-operated channels on Tencent products was 11.5 million.

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### *Scope and Quality of Our Literary Content Library and Effective Control of Content Costs and Relationship with Writers*

High quality content is pivotal to the success of our business. We need to license or produce high quality content in order to deliver a differentiated and engaging experience for our readers. We derived a substantial majority of our revenues from monetizing our literary content. As of December 31, 2014, 2015, 2016 and June 30, 2017, the total number of literary titles in our online content library (including Cloudary's prior to its acquisition) was 6.0 million, 7.1 million, 8.4 million and 9.6 million, respectively.

Content cost has historically accounted for the biggest portion of our cost of revenues and attributed to 72.1%, 38.1%, 55.9% and 60.8% of our total cost of revenues in 2014, 2015, 2016 and in the six months ended June 30, 2017, respectively. We license the copyrights of popular literary content either at a fixed price or through revenue-sharing arrangements with writers and, to a lesser extent, third-party content providers. Our ability to effectively control content cost, especially by enhancing our bargaining power with popular writers, has affected and will continue to affect our profitability significantly. We expect our content cost to increase in absolute amounts as we expand our literary content library. However, given our industry leading market share and our expanding content monetization capabilities, we believe we have the ability to control the overall percentage of revenues that we will pay to our writers and third-party content providers.

### *Our Ability to Increase Revenues from our Intellectual Property Operations*

Our intellectual property operations business is an important part of our future strategy and content monetization efforts. Our intellectual property operations primarily include our copyright sub-licensing business. Our copyright sub-licensing business is affected by (i) the demand for source materials from the entertainment industry, (ii) our bargaining power with content adaptation partners and (iii) our cooperation model with content adaptation partners, such as film and TV production companies. Our copyright sub-licensing business has benefited from the recent boom in the entertainment industry in China and the resulting surge in demand for high quality source materials. Going forward, we will seek to gain greater bargaining power by leveraging our content library and expertise in intellectual property management. We will also seek to enjoy greater upside from the derivative development of our content by entering into more sophisticated cooperation models with content adaptation partners.

We began our animation production and distribution business in late 2015. The popularity of our existing animation works, as well as any new animation works that we offer, is another factor that affects the performance of our intellectual property operations.

### *Relationship with Content Distribution Partners*

We derive a significant portion of our online reading revenues from our self-operated channels on Tencent products, third-party distribution partners, and our white-label mobile apps pre-installed on the mobile devices of our mobile device manufacturing partners. We began our content distribution cooperation with Tencent in 2014. As of June 30, 2017, we had sourced and published approximately

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273 thousand and 137 thousand third party sourced works and e-book works respectively on our platform. We plan to expand our Tencent, third-party and white-label partnerships, and deepen our cooperative relationships with such channels, by leveraging our vast and high quality content library.

### *Effective Control of User Acquisition Costs and Expenses*

There is considerable competition for user traffic amongst online literature platforms, especially for mobile user traffic. A primary component of our cost of revenues is our online reading platform distribution costs paid to Tencent pursuant to revenue-sharing arrangements. Selling and marketing expenses historically represent a significant majority of our total operating expenses. Our ability to expand our user base and strengthen its engagement while controlling user acquisition related costs and expenses, including the percentage of online reading revenues shared with our distribution network partners, is critical for our results of operations in the future.

### *Strategic Acquisitions and Investments*

Over the Track Record Period, we acquired or invested in different companies that expanded our content creation, sourcing, distribution and adaptation capabilities as well as strengthened our technological capacities. For example, we acquired both Cloudary and Chuangshi in 2014, and acquired Shanghai Foch in 2015. See the section headed “History, Reorganization and Corporate Structure” in this document and the paragraph headed “— Capital Expenditures and Long term Investments” in this section for details of our long-term investments as of December 31, 2016. Acquisition of Cloudary has presented a significant contribution to our financial performance post-acquisition. We plan to continue to invest in or acquire businesses that are complementary to our business, such as: (i) companies that offer literary content in niche and refined genres; (ii) entertainment companies; and (iii) companies with advanced big data analytics technologies. Such investments and acquisitions may impact our operational results and financial condition, depending on the amount involved and the performance of the companies in which we invest or which we acquire. See the section headed “Risk Factors — Risks Relating to Our Business and Industry — Our strategy of making strategic acquisitions and investments may fail and may result in material and adverse impact to our financial condition and results of operations” in this document. See also the section headed “Business — Risk Management and Internal Control — Investment Risk Management” in this document for a discussion of our internal control and risk management measures relating to investments.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not

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been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this document.

### **Revenue Recognition**

Revenues are measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and sales tax and related surcharges. We recognize revenues when the amount of revenues can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our activities, as described below. We base our estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

#### ***Online reading***

We generate revenues from the sale of online premium literature content to users through our products, our self-operated channels on Tencent products and third-party platforms. We evaluate whether it is appropriate to record the gross amount of sales and related costs or the net amount earned as revenues. Generally, when we are primarily obligated in a transaction and have latitude in establishing prices and selecting suppliers, or when we have several but not all of these indicators, our revenue is recorded at the gross sale amount. We generally record the net amounts as revenues earned if we are not primarily obligated and do not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, or some combination thereof.

With respect to the online reading revenue derived from our products and self-operated channels, except for revenue derived from *Weixin Reading*, we are determined to be the primary obligor and accordingly, we record revenue on a gross basis, and the platform distribution charges by Tencent are recorded as cost of revenues. Users generally purchase the content by chapter or by book and cannot cancel the purchase once made. Users can pay for their purchases either through the online payment channels, tokens issued by related parties or through credits directly deposited into their respective accounts which they can make directly on our self-owned platform or related parties' platforms, including channels operated by us. Content purchased by users usually has no expiration date unless otherwise stated. The revenues from purchase of online content or other community tools (such as votes and virtual gifts for a writer) are recognized at the time of purchase by the users because we do not have further obligations after providing the content to the user upon purchase and all other criteria for revenue recognition have been met. Our community tools are generally consumable virtual items that will be extinguished shortly after consumption. As such, the users will not continue to benefit from the community tools and we do not have further obligations to the users after the virtual items

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are consumed. Therefore, revenue is recognized immediately when the community tools are consumed. With respect to the online reading revenue derived from third-party platforms, we are evaluated and determined that we are not the primary obligor in the services rendered to the end users, and accordingly, we record our revenue based on the portion of revenues to be shared and derived from the platforms.

Furthermore, revenue for the online paid users loyalty programs that are operated by us on our self-owned platform is allocated between the fair value of the loyalty program and that of the other components of the sale. The amount allocated to the loyalty program is deferred, and is recognized as revenue when we have fulfilled our obligations to supply the discounted reading service under the terms of the program.

### *Intellectual property operations*

We primarily generate revenues from sub-licensing copyrights of literary works obtained from writers to film studios, TV and web series production companies, online game production companies, animation production companies, and traditional offline book publishers for agreed periods. The revenues from sub-licensing agreements are recognized when all the following criteria are met: persuasive evidence that an arrangement exists; the content has been delivered or is available for immediate and unconditional delivery and we have no further obligations; the price to the customer is fixed or determinable; and collectability of payment is reasonably assured. Depending on the terms of the respective agreements, revenues are recognized either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront or over the period of the sub-licensing agreement under which we need to provide consistent services. Any amount of revenue which is contingent upon future events (such as future revenue generated by using the copyright) is recognized when the contingency is met.

### *Physical books*

We sell our physical books through chain and online bookstores as well as wholesalers who serve as our distributors. Following the normal industry practice in China, we provide physical books to the distributors substantively on a consignment basis. Accordingly, we do not transfer risk and rewards of the inventory upon delivery to the distributor. Risk and rewards are only transferred when the books are sold to the end customers. In the event that a distributor does not provide any information about the status of books being sold or damaged until settlement, we recognize revenue until the settlement with the applicable distributor. In the event that a distributor provides real time information about the books being sold, we recognize revenue when the books have been sold to end customers.

### *Other revenues*

Our other revenues are primarily derived from provision of online game service and online advertising service.

We provide game operation services through our platform and third-party online platforms. Our games are free-to-play and players can pay for virtual items to enhance the in-game experience. Upon the sale of virtual items, we typically have an implied obligation to provide the service which enables



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the virtual items to be displayed and used in the respective games. As such, the proceeds from the sales of virtual items are initially recorded as deferred revenues and are recognized as revenues subsequently only when the services have been rendered. We conclude that we take the primary responsibilities in rendering those services and accordingly, we record revenues on a gross basis and the online reading platform distribution costs are recorded as cost of revenue. We also publish third party developers' games on our platform. We determine that we are not the primary obligor in the services rendered to the paying players with respect to the third party developers' games that we publish, and accordingly, we record our revenues on a net basis and recognize revenues for in-game virtual items procured by the use of game credits over the estimated user relationship period.

Advertising revenues are derived from online advertising whereby we allow advertisers to place advertisements on particular areas of our websites. Arrangements with advertising agencies, as the intermediaries, are structured to permit discretions over the use and sale of the advertising capacity to end advertisers. Advertising revenues from arrangements with agencies are recognized ratably over the contract periods. We also generate advertising revenues from pay-for-click services which enable advertisers' promotional links to be displayed on particular areas of our applications where the links are relevant to the subject and content of such web pages. Revenues for pay-for-click services are recognized on a per-click basis when the users click the displayed links.

### **Intangible Assets**

#### *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, we allocate goodwill acquired in a business combination to each of our cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

We conduct goodwill impairment reviews annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. We recognize any impairment immediately as an expense and we do not subsequently reverse any impairment.

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### *Acquired trademarks*

Separately acquired trademarks are shown at historical cost. We recognize trademarks acquired in a business combination at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortization. We calculate amortization by using the straight-line method to allocate the cost of trademarks over their estimated useful lives of no more than 20 years. The useful lives of the trademarks are the periods over which the trademarks are expected to be available for use by the Group, and the management of the Group also takes into account of past experience when estimating the useful lives.

### *Content Copyrights*

We recognize content copyrights purchased from writers and measure them initially at costs, and recognize copyrights of contents acquired in a business combination initially at fair value at the acquisition date. We amortize copyrights of contents on a straight-line basis over their estimated useful economic lives of 3 to 10 years.

### *Other intangible assets acquired in a business combination*

We recognize other intangible assets acquired in a business combination, mainly including writers' contracts, distribution channel relationships and customer relationships, initially at fair value at the acquisition date and subsequently carry them at the amount initially recognized less accumulated amortization and impairment losses, if any. We calculate amortization by using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

|                                   |               |
|-----------------------------------|---------------|
| Writers' contracts                | 5 to 6 years  |
| Distribution channel relationship | 2 to 12 years |
| Customer relationship             | 5 years       |

### *Other intangible assets*

Other intangible assets mainly include software and domain names. We recognize and measure them initially at cost or estimated fair value of intangible assets acquired through business combinations. We amortize other intangible assets over their estimated useful lives (generally in the range of 3 to 5 years) using the straight-line method.

### **Share-based Compensation Benefits**

#### *Tencent's share-based compensation benefits*

Tencent operates a number of share-based compensation plans (including share option schemes and share award schemes), under which Tencent, including us, receives services from employees as consideration for equity instruments (including share options and awarded shares) of ours. The fair value of the employee services received in exchange for the grant of equity instruments of Tencent is

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recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and is credited to contribution from shareholder under equity.

At the end of each reporting period, we revise the estimates of the number of options and awarded shares that are expected to ultimately vest. We recognize the impact of the revision to the original estimates, if any, in our consolidated statement of comprehensive income or loss, with a corresponding adjustment made to contribution from shareholder over the remaining vesting period.

If the terms of an equity-settled award are modified, a minimum amount of expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of the modification.

The fair value of the RSUs granted by Tencent was calculated based on the market price of the Tencent's shares at the respective grant date. As at December 31, 2014, 2015 and 2016 and June 30, 2016 and 2017, the expected retention rate (being the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the equity awards) was assessed to be 100%, 100%, 100%, 100% and 100%, respectively.

### *Our share-based compensation benefits*

We operate an equity-settled, share-based compensation plan, under which we receive services from employees as consideration for our equity instruments. The fair value of the employee services received in exchange for the grant of restricted shares units ("RSUs") is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore fair value on the grant date is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

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Where there is any modification to terms and conditions which increases the fair value of the equity instruments granted, we include the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which continues to be recognized over the remainder of the original vesting period. Furthermore, if we modify the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, we nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

At the end of each reporting period, we revise our estimates of the number of RSUs that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value of each RSUs granted by the Company at the grant date, December 23, 2014, was determined by reference to the fair value of the ordinary share of the Company that issued to its shareholders. As at December 31, 2014, 2015 and 2016 and June 30, 2016 and 2017, the expected retention rate (being the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the equity awards) was assessed to be 100%, 100%, 100%, 100% and 100%, respectively.

### **Inventories**

Inventories, consisting principally of paper and books, are stated at the lower of cost, using the weighted average method, or net realizable value. The inventory held with the distributors is on a consignment basis and is carried as such until sold or returned. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories other than papers and books consist primarily of animation production costs and side-line merchandise for sale, which are stated at the lower of cost or net realizable value.

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### CONSOLIDATED INCOME STATEMENT

The following table sets forth a summary of our consolidated statements of comprehensive income/(loss) with line items in absolute amounts and as percentages of our revenues for the periods indicated. We have consolidated the financial results of Cloudary in 2015, 2016 and the six months ended June 30, 2016 and 2017. Our consolidated financial results for the year ended December 31, 2014 include the financial results of Chuangshi beginning from May 2014 and do not include the financial results of Cloudary.

|   | For the year ended December 31, |              |                  |               |                |            | For the six months ended June 30, |              |                |             |
|---|---------------------------------|--------------|------------------|---------------|----------------|------------|-----------------------------------|--------------|----------------|-------------|
|   | 2014                            |              | 2015             |               | 2016           |            | 2016                              |              | 2017           |             |
|   | RMB                             | %            | RMB              | %             | RMB            | %          | RMB                               | %            | RMB            | %           |
| (unaudited)   |                                 |              |                  |               |                |            |                                   |              |                |             |
| (in thousands, except percentages)  |                                 |              |                  |               |                |            |                                   |              |                |             |
| Revenues .....  | 466,208                         | 100.0        | 1,606,640        | 100.0         | 2,556,866      | 100.0      | 999,585                           | 100.0        | 1,924,198      | 100.0       |
| Cost of revenues .....  | (263,965)                       | (56.6)       | (1,026,106)      | (63.9)        | (1,502,019)    | (58.7)     | (591,416)                         | (59.2)       | (962,004)      | (50.0)      |
| Gross profit .....  | 202,243                         | 43.4         | 580,534          | 36.1          | 1,054,847      | 41.3       | 408,169                           | 40.8         | 962,194        | 50.0        |
| Selling and marketing expenses ..   | (127,207)                       | (27.3)       | (539,617)        | (33.6)        | (734,176)      | (28.7)     | (351,704)                         | (35.2)       | (467,399)      | (24.3)      |
| General and administrative expenses .....                                       | (70,928)                        | (15.2)       | (355,540)        | (22.1)        | (421,264)      | (16.5)     | (192,372)                         | (19.2)       | (323,500)      | (16.8)      |
| Other gains/(losses), net .....   | (129)                           | —            | 6,863            | 0.4           | 133,916        | 5.2        | 140,576                           | 14.1         | 50,674         | 2.6         |
| <b>Operating profit/(loss).....</b>   | <b>3,979</b>                    | <b>0.9</b>   | <b>(307,760)</b> | <b>(19.2)</b> | <b>33,323</b>  | <b>1.3</b> | <b>4,669</b>                      | <b>0.5</b>   | <b>221,969</b> | <b>11.5</b> |
| Finance costs .....   | (172)                           | —            | (16,881)         | (1.1)         | (27,092)       | (1.1)      | (12,403)                          | (1.2)        | (20,438)       | (1.1)       |
| Finance income.....   | 309                             | —            | 1,654            | 0.1           | 3,939          | 0.2        | 2,047                             | 0.2          | 12,245         | 0.6         |
| Share of profit of investments accounted for using equity method .....          | —                               | —            | 5,845            | 0.3           | 28,148         | 1.1        | 10,551                            | 1.1          | 29,915         | 1.6         |
| <b>Profit/(loss) before income tax..</b>  | <b>4,116</b>                    | <b>0.9</b>   | <b>(317,142)</b> | <b>(19.7)</b> | <b>38,318</b>  | <b>1.5</b> | <b>4,864</b>                      | <b>0.5</b>   | <b>243,691</b> | <b>12.7</b> |
| Income tax expense.....   | (25,246)                        | (5.4)        | (37,017)         | (2.3)         | (7,958)        | (0.3)      | (7,245)                           | (0.7)        | (30,202)       | (1.6)       |
| <b>Net profit/(loss) for the period .</b>                                       | <b>(21,130)</b>                 | <b>(4.5)</b> | <b>(354,159)</b> | <b>(22.0)</b> | <b>30,360</b>  | <b>1.2</b> | <b>(2,381)</b>                    | <b>(0.2)</b> | <b>213,489</b> | <b>11.1</b> |
| Non-IFRS Measures <sup>(1)</sup>  |                                 |              |                  |               |                |            |                                   |              |                |             |
| <b>Adjusted operating profit/(loss) (unaudited)<sup>(2)</sup>.....</b>          | <b>20,274</b>                   | <b>4.3</b>   | <b>(28,855)</b>  | <b>(1.8)</b>  | <b>118,104</b> | <b>4.6</b> | <b>(20,929)</b>                   | <b>(2.1)</b> | <b>322,167</b> | <b>16.7</b> |
| <b>Adjusted EBITDA (unaudited)<sup>(3)</sup>.....</b>                           | <b>35,563</b>                   | <b>7.6</b>   | <b>50,901</b>    | <b>3.2</b>    | <b>184,425</b> | <b>7.2</b> | <b>12,753</b>                     | <b>1.3</b>   | <b>348,436</b> | <b>18.1</b> |
| <b>Adjusted net profit/(loss) for the period (unaudited)<sup>(4)</sup>.....</b> | <b>(7,264)</b>                  | <b>(1.6)</b> | <b>(94,247)</b>  | <b>(5.9)</b>  | <b>81,124</b>  | <b>3.2</b> | <b>(44,791)</b>                   | <b>(4.5)</b> | <b>302,842</b> | <b>15.7</b> |

*Note:*

- (1) Adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss) are not measures required by, or presented in accordance with, IFRS. The use of these measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See the paragraph headed “— Non-IFRS Measures: Adjusted Operating Profit/(Loss), Adjusted EBITDA and Adjusted Net Profit/(Loss)” in this section for details.
- (2) We define adjusted operating profit/(loss) as profit/(loss) from operations for the period adjusted by adding back share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets and one-off listing expenses.

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- (3) We define adjusted EBITDA as EBITDA (which is profit from operations less other gain/(loss), net and plus depreciation and amortisation expenses) for the period adjusted by adding share-based compensation and one-off listing expenses.
- (4) We define adjusted net profit/(loss) as net profit/(loss) for the period adjusted by adding back share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses and tax effects.

### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Our Company

Our business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker, who is responsible for allocating resources and assessing performance of our operating segment. Our chief operating decision-maker has been identified as our chief executive officers and the vice presidents that make strategic decisions, and they consider that our operations are operated and managed as a single segment. Accordingly, no segment information is presented in this document or the financial statements.

#### Revenue

During the Track Record Period, we generated revenues mainly through (i) online reading, (ii) intellectual property operations, and (iii) physical books. We also generated other revenues, mainly from online games and online advertising services, during the Track Record Period. The following table sets forth our revenue breakdown by amount and as a percentage of our total revenues for the periods presented.

|                                     | For the Year Ended December 31,    |              |                  |              |                  |              | For the six months ended<br>June 30, |              |                  |              |
|-------------------------------------|------------------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------------------|--------------|------------------|--------------|
|                                     | 2014                               |              | 2015             |              | 2016             |              | 2016                                 |              | 2017             |              |
|                                     | RMB                                | %            | RMB              | %            | RMB              | %            | RMB                                  | %            | RMB              | %            |
|                                     | (unaudited)                        |              |                  |              |                  |              |                                      |              |                  |              |
|                                     | (in thousands, except percentages) |              |                  |              |                  |              |                                      |              |                  |              |
| Online reading                      |                                    |              |                  |              |                  |              |                                      |              |                  |              |
| On our self-owned platform          |                                    |              |                  |              |                  |              |                                      |              |                  |              |
| products .....                      | 316,642                            | 68.0         | 590,834          | 36.9         | 1,057,641        | 41.2         | 405,027                              | 40.5         | 871,510          | 45.3         |
| On our self-operated channels       |                                    |              |                  |              |                  |              |                                      |              |                  |              |
| on Tencent products .....           | 125,395                            | 26.8         | 197,955          | 12.3         | 666,438          | 26.1         | 214,686                              | 21.5         | 545,805          | 28.4         |
| On third party platforms .....      | 10,959                             | 2.4          | 182,139          | 11.3         | 249,984          | 9.8          | 103,647                              | 10.4         | 216,463          | 11.2         |
| Total online reading .....          | 452,996                            | 97.2         | 970,928          | 60.5         | 1,974,063        | 77.1         | 723,360                              | 72.4         | 1,633,778        | 84.9         |
| Intellectual property operations... | 12,148                             | 2.6          | 162,760          | 10.1         | 247,408          | 9.7          | 108,629                              | 10.9         | 155,660          | 8.1          |
| Physical books .....                | —                                  | —            | 228,524          | 14.2         | 224,033          | 8.8          | 108,664                              | 10.9         | 93,896           | 4.9          |
| Others <sup>(1)</sup> .....         | 1,064                              | 0.2          | 244,428          | 15.2         | 111,362          | 4.4          | 58,932                               | 5.8          | 40,864           | 2.1          |
| Total Revenues .....                | <u>466,208</u>                     | <u>100.0</u> | <u>1,606,640</u> | <u>100.0</u> | <u>2,556,866</u> | <u>100.0</u> | <u>999,585</u>                       | <u>100.0</u> | <u>1,924,198</u> | <u>100.0</u> |

Note:

- (1) Our other revenues are mainly derived from online games and online advertising services.

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### *Online reading*

We generate revenues from online reading primarily through online paid reading of our premium literary content. To attract users to our platform, we also offer some content for free. Premium content is licensed from writers with whom we have entered into licensing contracts, and the content is published exclusively through our distribution channels, including our products and our self-operated channels on Tencent products and third-party platforms. We typically offer the beginning chapters of premium literary works to readers for free, which we believe can attract readers to visit and explore our online literature library. Readers pay to gain access to the remaining chapters of such works. Most of our readers choose to only pay for the content they consume, and we charge them based on the number of characters they read. The ability to do this is highly economical for readers. We also offer monthly subscription packages, which allow readers to access a sub-set of our content offerings and receive discounts on purchases of premium content that are charged by character count.

The growth of our online reading revenues is primarily driven by (i) the growth of our active and paying user bases, (ii) the scale of our online literature library, and (iii) the scale of our content distribution network.

*Online reading on our products and self-operated channels.* Our products include our mobile apps, WAPs our websites and pre-installed white-label versions of our mobile apps on the mobile devices of our hardware partners. We primarily generate revenues from the sale of premium online literature content to readers through our products. We also generate a small amount of revenues from the sale of paid virtual items to readers on our products. We generate revenues from the sale of premium online literature content to readers through our self-operated content channels on Tencent products. We share a certain portion of the revenues from our self-operated channels with Tencent, and we share a certain portion of the revenues from pre-installed apps with the mobile device manufacturers. Apart from *Weixin Reading*, revenues from online reading on our products and self-operated channels are recorded on a gross basis, as we are determined to be the primary obligor. We set the pricing for paid reading of literary content on our self-operated channels.

*Online reading on third-party platforms.* We generate revenues from the sale of premium online literature contents to readers through third-party platforms, such as *Baidu*, *Sogou* and *Xiaomi Duokan*. We record revenues from third-party platforms on a net basis.

### *Intellectual property operations*

For our intellectual property operations, we primarily generate revenues from sub-licensing copyrights we obtained from writers to content adaptation partners, including film studios, TV and web series production companies, online game companies and animation production companies, for agreed periods. We also generate intellectual property operations revenues from animation production and distribution and from sub-licensing copyrights to traditional physical book publishers for agreed periods. Our financial and operational involvement in subsequent adaptations of our content varies based on our assessment of potential commercial returns and overall value to our brand reputation. Based on such assessment, we typically choose to receive only a fixed licensing fee upfront or a



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combination of a fixed licensing fee and revenue or profit sharing from the end entertainment product, such as box office, TV distribution profits or online game revenues. In late 2015, we began to produce and distribute animated works based on our popular literary titles. We sell the broadcasting rights of our animation productions to media outlets, including Internet TV platforms.

The growth of our intellectual property operations revenues is primarily driven by the growth of our content library, the strengthening of our content quality, the appreciation of the market value of our high quality content, as well as the scale and purchasing power of our content adaptation partners.

### *Physical books*

We sell physical books that we produce through chain and online bookstores and wholesalers. Following the customary industry practice in China, we provide our books to such distributors substantively on a consignment basis. Accordingly, we do not transfer risk and rewards of books upon delivery to such distributors, and will transfer risk and rewards only when the books are sold to the end customers. With respect to the distributors that do not provide any information about the books sold or damaged until settlement with us, we recognize revenue upon our settlement with the applicable distributor. With respect to the distributors that provide real time information about the books sold, we recognize revenue when the books have been sold to end customers.

### *Others*

Our other revenues for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017 mainly included online games revenue of nil, RMB193.1 million, RMB59.8 million, RMB32.6 million and RMB25.9 million and online advertising revenue of nil, RMB45.1 million, RMB31.1 million, RMB16.0 million and RMB11.6 million, respectively. We publish third party developers' games on our platform and share revenues with such developers. We also develop our own online games based on our popular literary titles and provide game operation services through our platform and third-party platforms. The game development phase is outsourced to third parties. For online advertising, we primarily offer display and pay-for-click advertising solutions to our advertising customers, which are typically advertising agencies.

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### *Cost of Revenues*

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

|   | For the year ended December 31,    |             |                  |             |                  |             | For the six months ended June 30, |             |                |             |
|---|------------------------------------|-------------|------------------|-------------|------------------|-------------|-----------------------------------|-------------|----------------|-------------|
|   | 2014                               |             | 2015             |             | 2016             |             | 2016                              |             | 2017           |             |
|   | RMB                                | %           | RMB              | %           | RMB              | %           | RMB                               | %           | RMB            | %           |
|   | (unaudited)                        |             |                  |             |                  |             |                                   |             |                |             |
|   | (in thousands, except percentages) |             |                  |             |                  |             |                                   |             |                |             |
| Content costs .....                                 | 190,242                            | 40.8        | 391,432          | 24.4        | 838,975          | 32.8        | 297,412                           | 29.8        | 585,052        | 30.4        |
| Online reading platform<br>distribution costs ..... | 15,454                             | 3.3         | 37,449           | 2.3         | 152,971          | 6.0         | 49,182                            | 4.9         | 123,999        | 6.4         |
| Amortization of intangible<br>assets .....          | 17,790                             | 3.8         | 151,064          | 9.4         | 128,071          | 5.0         | 69,849                            | 7.0         | 57,705         | 3.0         |
| Employee benefits expenses .....                    | 28,074                             | 6.0         | 85,265           | 5.3         | 80,032           | 3.1         | 39,511                            | 4.0         | 37,133         | 1.9         |
| Cost of inventories recognized as<br>expenses ..... | —                                  | —           | 141,454          | 8.8         | 151,003          | 5.9         | 71,489                            | 7.2         | 67,063         | 3.5         |
| Others .....  | 12,405                             | 2.7         | 219,442          | 13.7        | 150,967          | 5.9         | 63,973                            | 6.3         | 91,052         | 4.8         |
| <b>Total cost of revenues .....</b>                 | <b>263,965</b>                     | <b>56.6</b> | <b>1,026,106</b> | <b>63.9</b> | <b>1,502,019</b> | <b>58.7</b> | <b>591,416</b>                    | <b>59.2</b> | <b>962,004</b> | <b>50.0</b> |

Our cost of revenues primarily consist of (i) content costs, (ii) online reading platform distribution costs, (iii) amortization of intangible assets, (iv) employee benefits expenses and (v) cost of inventories recognized as expenses. *Others* in 2015 primarily consist of online game platform distribution costs, in 2016 primarily consist of online game platform distribution costs and bandwidth and server custody fees, and in the six months ended June 30, 2017 primarily consist of bandwidth and server custody fees and animation production costs.

*Content costs.* Content costs primarily include the fees, in the form of revenue-sharing, that we pay to writers to license all or part of the copyrights of their literary works. Depending on the scope of the licensing agreements, writers receive royalties based on online reading sales and other forms of monetization of their works. To a lesser extent, content costs also include royalties paid to third-party content providers.

*Online reading platform distribution costs.* Online reading platform distribution costs represent revenue-sharing payments to Tencent. See the section headed “Connected Transactions” in this document for details regarding distribution arrangements with Tencent.

*Amortization of intangible assets.* Amortization of intangible assets primarily represents amortization of the copyrights of literary works that we licensed from writers with one-off payments as well as amortization of domain names and software. To optimize the return on our copyright licensing expenditures, we decide the scope and pricing for a copyright license based on the popularity

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of the writer and the monetization potential of the content. In certain cases, we may choose to forego the revenue-sharing model and license the content with an one-off payment to writers based on our holistic assessment of content value.

*Employee benefits expenses.* Employee benefits expenses primarily comprise (i) wages, salaries and bonuses, (ii) other social security costs, housing benefits and other employee benefits, (iii) pension cost-defined contribution plans, (iv) share-based compensation expenses, for our editorial staff.

*Cost of inventories recognized as expenses.* Cost of inventories recognized as expenses comprises (i) the royalty paid to writers of physical books based on sales volume, (ii) production costs of physical books and (iii) provision for write-downs of physical books due to inventory obsolescence.

### ***Gross Profit***

The following table sets forth our gross profit in absolute amounts and as a percentage of revenues, or gross margins, for the periods indicated:

|                    | For the year ended December 31,    |      |         |      |           |      | For the six months ended June 30, |      |         |      |
|--------------------|------------------------------------|------|---------|------|-----------|------|-----------------------------------|------|---------|------|
|                    | 2014                               |      | 2015    |      | 2016      |      | 2016                              |      | 2017    |      |
|                    | RMB                                | %    | RMB     | %    | RMB       | %    | RMB                               | %    | RMB     | %    |
|                    | (unaudited)                        |      |         |      |           |      |                                   |      |         |      |
|                    | (in thousands, except percentages) |      |         |      |           |      |                                   |      |         |      |
| Gross profit ..... | 202,243                            | 43.4 | 580,534 | 36.1 | 1,054,847 | 41.3 | 408,169                           | 40.8 | 962,194 | 50.0 |

### ***Selling and Marketing Expenses***

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses, (ii) payment handling costs associated with the purchase by readers of our premium content or virtual items, and (iii) employee benefits expenses of our selling and marketing staff.

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Our selling and marketing expenses increased over the Track Record Period primarily due to the increasing expenses in promoting and advertising our brand and our core mobile app, *QQ Reading*. The following table sets forth a breakdown of our selling and marketing expenses by amount and as a percentage of our total revenues for the periods indicated:

|   | For the year ended December 31,    |             |                |             |                |             | For the six months ended June 30, |             |                |             |
|---|------------------------------------|-------------|----------------|-------------|----------------|-------------|-----------------------------------|-------------|----------------|-------------|
|   | 2014                               |             | 2015           |             | 2016           |             | 2016                              |             | 2017           |             |
|   | RMB                                | %           | RMB            | %           | RMB            | %           | RMB                               | %           | RMB            | %           |
|   | (unaudited)                        |             |                |             |                |             |                                   |             |                |             |
|   | (in thousands, except percentages) |             |                |             |                |             |                                   |             |                |             |
| Promotion and advertising expenses .....          | 28,963                             | 6.2         | 296,728        | 18.5        | 491,421        | 19.2        | 248,434                           | 24.9        | 296,877        | 15.4        |
| Payment handling costs .....                      | 66,896                             | 14.4        | 82,686         | 5.1         | 101,220        | 4.0         | 34,114                            | 3.4         | 100,356        | 5.2         |
| Employee benefits expenses .....                  | 22,952                             | 4.9         | 94,878         | 5.9         | 82,570         | 3.2         | 40,327                            | 4.0         | 47,275         | 2.5         |
| Others .....                                      | 8,396                              | 1.8         | 65,325         | 4.1         | 58,965         | 2.3         | 28,829                            | 2.9         | 22,891         | 1.2         |
| <b>Total selling and marketing expenses .....</b> | <b>127,207</b>                     | <b>27.3</b> | <b>539,617</b> | <b>33.6</b> | <b>734,176</b> | <b>28.7</b> | <b>351,704</b>                    | <b>35.2</b> | <b>467,399</b> | <b>24.3</b> |

### *General and Administrative Expenses*

Our general and administrative expenses primarily consist of (i) employee benefits expenses associated with the administration of our business, (ii) amortization of intangible assets primarily related to trademarks that were acquired by us as part of business acquisitions, and (iii) professional service fees for legal and consulting services.

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During the Track Record Period, our general and administrative expenses increased primarily due to the increase of employee benefits expenses and professional service fees. The following table sets forth a breakdown of our general and administrative expenses by amount and as a percentage of our total revenues for the periods indicated:

|  | For the year ended December 31,    |             |                |             |                |             | For the six months ended June 30, |             |                |             |
|--|------------------------------------|-------------|----------------|-------------|----------------|-------------|-----------------------------------|-------------|----------------|-------------|
|  | 2014                               |             | 2015           |             | 2016           |             | 2016                              |             | 2017           |             |
|  | RMB                                | %           | RMB            | %           | RMB            | %           | RMB                               | %           | RMB            | %           |
|  | (unaudited)                        |             |                |             |                |             |                                   |             |                |             |
|  | (in thousands, except percentages) |             |                |             |                |             |                                   |             |                |             |
| Employee benefits expenses .....                               | 40,246                             | 8.6         | 226,453        | 14.1        | 274,808        | 10.7        | 126,927                           | 12.7        | 176,635        | 9.2         |
| Amortisation of intangible<br>assets .....                     | 795                                | 0.2         | 38,465         | 2.4         | 38,175         | 1.5         | 19,193                            | 2.0         | 18,865         | 1.0         |
| Professional service fees .....                                | 2,158                              | 0.5         | 18,164         | 1.1         | 35,564         | 1.4         | 15,929                            | 1.6         | 43,005         | 2.2         |
| Travelling, entertainment and<br>general office expenses ..... | 12,730                             | 2.7         | 14,194         | 0.9         | 17,677         | 0.7         | 8,318                             | 0.8         | 7,788          | 0.4         |
| Operating lease rentals .....                                  | 1,757                              | 0.4         | 7,862          | 0.5         | 12,369         | 0.5         | 5,337                             | 0.5         | 9,978          | 0.5         |
| Depreciation of property, plant<br>and equipment .....         | 1,246                              | 0.3         | 10,661         | 0.7         | 12,339         | 0.5         | 6,233                             | 0.6         | 12,573         | 0.7         |
| Game development outsourcing<br>costs .....                    | 2,220                              | 0.5         | 8,565          | 0.5         | 11,019         | 0.4         | 4,328                             | 0.4         | 13,417         | 0.7         |
| Auditors' remuneration .....                                   | 1,600                              | 0.3         | 5,400          | 0.3         | 3,792          | 0.1         | 1,751                             | 0.2         | 4,358          | 0.2         |
| Others .....   | 8,176                              | 1.7         | 25,776         | 1.6         | 15,521         | 0.7         | 4,356                             | 0.4         | 36,881         | 1.9         |
| <b>Total general and<br/>administrative expenses .....</b>     | <b>70,928</b>                      | <b>15.2</b> | <b>355,540</b> | <b>22.1</b> | <b>421,264</b> | <b>16.5</b> | <b>192,372</b>                    | <b>19.2</b> | <b>323,500</b> | <b>16.8</b> |

Research and development expenses for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017 were RMB23.2 million, RMB112.6 million, RMB187.0 million, RMB82.6 million and RMB130.0 million, respectively, which mainly included employee benefits expenses of research and development function staff.

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### *Other Gains/(Losses), Net*

|   | For the year ended December 31,    |          |              |            |                |            | For the six months ended June 30, |             |               |            |
|---|------------------------------------|----------|--------------|------------|----------------|------------|-----------------------------------|-------------|---------------|------------|
|   | 2014                               |          | 2015         |            | 2016           |            | 2016                              |             | 2017          |            |
|   | RMB                                | %        | RMB          | %          | RMB            | %          | RMB                               | %           | RMB           | %          |
|   | (unaudited)                        |          |              |            |                |            |                                   |             |               |            |
|   | (in thousands, except percentages) |          |              |            |                |            |                                   |             |               |            |
| Gain on redemption of convertible bonds .....                           | —                                  | —        | —            | —          | 92,207         | 3.6        | 92,207                            | 9.2         | —             | —          |
| Government subsidies .....  | —                                  | —        | 47,226       | 2.9        | 48,252         | 1.9        | 31,800                            | 3.2         | 3,346         | 0.2        |
| Fair value gain of investment in redeemable shares of an associate .... | —                                  | —        | 26,766       | 1.7        | 32,500         | 1.3        | 13,992                            | 1.4         | 5,492         | 0.3        |
| Gain on copyright infringements .....                                   | —                                  | —        | 14,773       | 0.9        | 7,128          | 0.3        | —                                 | —           | 9,294         | 0.5        |
| Fair value loss of convertible bonds                                    | —                                  | —        | (84,837)     | (5.3)      | —              | —          | —                                 | —           | —             | —          |
| Impairment loss of intangible assets...                                 | —                                  | —        | (5,700)      | (0.4)      | (49,000)       | (1.9)      | —                                 | —           | (51,200)      | (2.7)      |
| Gain/(loss) on disposal of subsidiaries .....                           | —                                  | —        | —            | —          | (746)          | (0.0)      | —                                 | —           | 60,888        | 3.1        |
| Foreign exchange gain/(loss) .....                                      | —                                  | —        | (13,957)     | (0.9)      | (19,622)       | (0.8)      | (6,276)                           | (0.6)       | 7,592         | 0.4        |
| Interest income on investments and loans receivable ...                 | —                                  | —        | 4,905        | 0.3        | 14,861         | 0.6        | 6,564                             | 0.7         | 7,500         | 0.4        |
| Others .....  | (129)                              | —        | 17,687       | 1.1        | 8,336          | 0.3        | 2,289                             | 0.2         | 7,762         | 0.4        |
| <b>Total other gains/(losses), Net .....</b>                            | <u>(129)</u>                       | <u>—</u> | <u>6,863</u> | <u>0.4</u> | <u>133,916</u> | <u>5.2</u> | <u>140,576</u>                    | <u>14.1</u> | <u>50,674</u> | <u>2.6</u> |

We did not incur significant other net losses in 2014. In 2015, our other gains primarily include (i) government subsidies of RMB47.2 million, (ii) fair value gain on investment in redeemable shares of an associate of RMB26.8 million and (iii) gain on copyright infringements of RMB14.8 million resulting from our copyright protection initiatives. In 2015, our other losses primarily include fair value loss of convertible bonds of RMB84.8 million, resulting from the fair value re-measurement of the new convertible bonds that arise from the assumption and replacement of certain convertible bonds

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initially issued by Cloudary in June 2013. In 2016, our other gains primarily include (i) gain on redemption of convertible bonds of RMB92.2 million, resulting from the assumption, replacement and redemption of the abovementioned convertible bonds, (ii) government subsidies of RMB48.3 million, (iii) fair value gain on investment in redeemable shares of an associate of RMB32.5 million and (iv) gain on copyright infringements of RMB7.1 million. In 2016, our other losses were primarily due to the RMB49.0 million in the impairment of distribution channel relationships that were acquired by us as part of business acquisitions. In the six months ended June 30, 2017, our other gains primarily include (i) gain on disposals of subsidiaries of RMB60.9 million, (ii) gain on copyright infringements of RMB9.3 million, (iii) foreign exchange gain of RMB7.6 million, (iv) interest income on investments and loans receivable of RMB7.5 million and (v) fair value gain on investment in redeemable shares of an associate of RMB5.5 million. In the six months ended June 30, 2017, our other losses primarily include the RMB51.2 million in the impairment of distribution channel relationships that were acquired by us as part of business acquisitions.

Our government grants consist of: (i) unconditional grants we received from the local government from time to time at the discretion of the relevant government authorities. Such grants have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits and are recognized as other gains when received, and mainly represent cash subsidies granted by the local government to encourage the development of certain enterprises that were established in the local special economic region or to support the general operations of those entities and (ii) conditional grants that compensate us for certain projects are initially recognised as special funds payable in the consolidated statements of financial position and subsequently recognized as other gains when we have complied with the required conditions of such grants. The majority of the grants we received were unconditional government subsidies.

### *Operating Profit/(Loss)*

The following table sets forth our operating profit/(loss) in absolute amounts and as a percentage of our revenues, or operating margin, for the periods indicated:

|                              | For the year ended December 31,    |     |           |        |        |     | For the six months ended June 30, |     |         |      |
|------------------------------|------------------------------------|-----|-----------|--------|--------|-----|-----------------------------------|-----|---------|------|
|                              | 2014                               |     | 2015      |        | 2016   |     | 2016                              |     | 2017    |      |
|                              | RMB                                | %   | RMB       | %      | RMB    | %   | RMB                               | %   | RMB     | %    |
|                              | (unaudited)                        |     |           |        |        |     |                                   |     |         |      |
|                              | (in thousands, except percentages) |     |           |        |        |     |                                   |     |         |      |
| Operating profit/(loss)..... | 3,979                              | 0.9 | (307,760) | (19.2) | 33,323 | 1.3 | 4,669                             | 0.5 | 221,969 | 11.5 |



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### *Finance Costs*

Finance costs primarily consist of interest expense on our borrowings.

### *Finance Income*

Finance income represents interest income on bank deposits and on short-term investments in wealth management products offered by banks.

### *Share of profits of associates*

Share of profits of associates represents our share of profits resulting from investments in associates.

### *Taxation*

Income tax expense was RMB25.2 million, RMB37.0 million, RMB8.0 million, RMB7.2 million and RMB30.2 million for 2014, 2015, 2016 and the six months ended June 30, 2016 and 2017, respectively. As of the Latest Practicable Date, we did not have any disputes with any tax authority. We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the Cayman Islands, Hong Kong and China.

#### *Cayman Islands*

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Companies Law and are not subject to Cayman Islands income tax.

#### *Hong Kong*

Hong Kong profits tax rate was 16.5% for the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

#### *China*

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, our PRC subsidiaries, and controlled affiliated entities and their subsidiaries are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy. Enterprises that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15% for three years. Beijing Hongxiu, Wangwen Xinyue and Shanghai Xuanting were certified as “high and new technology enterprises” in 2014, and their certificates have been renewed and will expire on October 21, 2017, July 23, 2018 and November 23, 2019, respectively. We have already submitted an application to renew the certificate of Beijing Hongxiu. As a result, Beijing Hongxiu, Wangwen Xinyue and Shanghai Xuanting were eligible for a preferential tax rate of 15% for each of the years ended December 31, 2014, 2015, 2016 and the six months ended June 30, 2017, respectively. The Notice on Taxation Policies for Further Encouraging the Development of the

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Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), which was promulgated by the Ministry of Finance and the SAT on January 1, 2011 and the Notice on Issues Relating to the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) promulgated by the Ministry of Finance, the SAT, the NDRC and the MIIT, provide that newly established integrated circuit design enterprises and eligible software enterprises, upon certification, shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017. Shanghai Yuewen was certified as “software enterprise” in 2015, and the first profitable year was 2014. Shanghai Yuewen enjoyed enterprise income tax exemption for 2015, and enjoyed or will enjoy a preferential tax rate of 12.5% for each of the years ended December 31, 2016, 2017 and 2018.

Our remaining PRC entities were subject to enterprise income tax at a rate of 25% for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017.

Pursuant to the Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied. During the Track Record Period, we did not have any plan to require our PRC subsidiaries to distribute their retained earnings and intended to retain them to operate and expand our business in China. Accordingly, we did not accrue any deferred income tax liability as of December 31, 2014, 2015, 2016 and June 30, 2017.

### *Net Profit/(Loss)*

The following table sets forth our net profit/(loss) in absolute amounts and as a percentage of our revenues, or net margin, for the periods indicated:

|                                      | For the year ended December 31,    |       |           |        |        |     | For the six months ended June 30, |       |         |      |
|--------------------------------------|------------------------------------|-------|-----------|--------|--------|-----|-----------------------------------|-------|---------|------|
|                                      | 2014                               |       | 2015      |        | 2016   |     | 2016                              |       | 2017    |      |
|                                      | RMB                                | %     | RMB       | %      | RMB    | %   | RMB                               | %     | RMB     | %    |
|                                      | (unaudited)                        |       |           |        |        |     |                                   |       |         |      |
|                                      | (in thousands, except percentages) |       |           |        |        |     |                                   |       |         |      |
| Net profit/(loss) for the period.... | (21,130)                           | (4.5) | (354,159) | (22.0) | 30,360 | 1.2 | (2,381)                           | (0.2) | 213,489 | 11.1 |

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### Cloudary

#### *Revenue*

In 2014, Cloudary primarily generate revenues from (i) online reading, (ii) intellectual property operations and, (iii) physical books. The following table sets forth revenues by amount and as a percentage of total revenues in 2014.

|   | <b>For the year ended December 31, 2014</b> |              |
|---|---|--------------|
|   | <b>RMB</b>                                  | <b>%</b>     |
|   | <b>(in thousands, except percentages)</b>   |              |
| Online reading                                  |   |              |
| Online reading on Cloudary's own platform ..... | 292,968                                     | 25.8         |
| Online reading on third-party platforms.....    | 252,560                                     | 22.3         |
| Physical books .....                            | 261,033                                     | 23.0         |
| Intellectual property operations .....          | 113,423                                     | 10.0         |
| Others .....                                    | 214,574                                     | 18.9         |
| <b>Total revenues</b> .....                     | <b>1,134,558</b>                            | <b>100.0</b> |

#### *Online reading*

*Online reading on Cloudary's own platform.* Cloudary generated revenues from charging readers who purchase premium content from its online literature library through a variety of devices. Cloudary also generated a small portion of revenues from selling various virtual gifts. Users conducted transactions on the websites of Cloudary through registered accounts. Registered users may recharge their accounts by purchasing pre-paid cards, through online bank transfers or by charging their credit cards or mobile phone accounts. Since our acquisition of Cloudary, we have integrated the content and user accounts of Cloudary with the rest of our own platform.

*Online reading on third-party platforms.* Revenues from online reading on third-party platforms were derived primarily from revenue-sharing arrangements with third-party mobile operators. Cloudary made available a selection of content accessible through mobile operators in exchange for a percentage share of the fees paid by mobile users. Mobile users typically purchase literary content by chapter or by book or on a monthly basis.

#### *Intellectual property operations*

Cloudary derived revenues from licensing its content for use in a variety of media formats. Cloudary licensed from writers the copyrights of popular literary works. Cloudary licensed such copyrights, either at fixed prices or through revenue-sharing arrangements, to content users who

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develop online games, television series or films based on the storylines of such works or publish physical books. Under the relevant licensing agreements, Cloudary typically granted content users an exclusive right to utilize its content for a specific purpose over a multiple-year period.

### *Physical books*

Cloudary generated revenues from selling the physical books it produced to chain and online bookstores and wholesalers. Cloudary delivered the books substantially on a consignment basis and only received payments from the bookstores and wholesalers based on sales orders confirmed by both parties. As was customary in the publishing industry in China, Cloudary paid commissions to the bookstores and wholesalers, typically in the form of rebates and discounts, and recognized revenues net of these rebates and discounts. In addition, the bookstores and wholesalers were permitted to return to Cloudary unsold books without incurring any penalties.

### *Others*

Other revenues of Cloudary primarily included online games and online advertising revenues. Cloudary published third party developers' games on its websites through cooperation with game developers. The game publishing revenue was mainly derived from revenue sharing arrangements from game developers. Cloudary also developed its own online games, with the development phase outsourced, and provided game operation services through its websites and third-party platforms. Cloudary derived online advertising revenues through selling various advertising solutions on its websites to advertising customers. The most popular formats were display advertisements such as banner advertisements. Cloudary sold its advertising services to advertisers through third-party and affiliated advertising agencies. Under exclusive advertising agency services agreements with an advertising agency affiliated with Cloudary, Cloudary received certain fixed sums as guaranteed advertising revenue and shared excess advertising revenue with the advertising agency.

### *Cost of Revenues*

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

|  | <b>For the year ended December 31, 2014</b> |             |
|--|---|-------------|
|  | <b>RMB</b>                                  | <b>%</b>    |
|  | <b>(in thousands, except percentages)</b>   |             |
| Content costs .....                              | 329,752                                     | 29.1        |
| Cost of inventories recognized as expenses ..... | 178,905                                     | 15.8        |
| Amortization of intangible assets .....          | 105,271                                     | 9.3         |
| Employee benefits expenses .....                 | 38,415                                      | 3.4         |
| Others .....                                     | 56,679                                      | 4.9         |
| <b>Total cost of revenues .....</b>              | <b>709,022</b>                              | <b>62.5</b> |

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Cost of revenues primarily consists of (i) content costs, (ii) cost of inventories recognized as expenses, (iii) amortization of intangible assets and (iv) employee benefits expenses.

*Content costs.* Content costs primarily include the fees, in the form of revenue-sharing, that Cloudary paid to writers to license the copyrights in their literary works. Depending on the scope of the licensing agreements, writers receive royalties based on online reading sales and other forms of monetization of the work.

*Cost of inventories recognized as expenses.* Cost of inventories recognized as expenses comprises (i) the royalty paid to writers of physical books based on sales volume, (ii) the paper and printing cost and delivery cost Cloudary paid to third-party printers, suppliers and logistics companies and (iii) provision for write-downs of physical books that Cloudary produced due to inventory obsolescence.

*Amortization of intangible assets.* Amortization of intangible assets represents amortization of the copyrights to literary works that Cloudary licensed from writers with one-off payments.

*Employee benefits expenses.* Employee benefits expenses primarily comprise (i) wages, salaries and bonuses, (ii) pension cost-defined contribution plans, (iii) other social security costs, housing benefits and other employee benefits and (iv) share-based compensation expenses, for the editorial staff.

### **Gross Profit**

The following table sets forth the gross profit and gross margin for 2014:

|                    | <b>For the year ended December 31, 2014</b> |          |
|--------------------|---|----------|
|                    | <b>RMB</b>                                  | <b>%</b> |
|                    | <b>(in thousands, except percentages)</b>   |          |
| Gross profit ..... | 425,536                                     | 37.5     |

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### *Selling and Marketing Expenses*

Selling and marketing expenses primarily consist of (i) promotion and advertising expenses, (ii) employee benefits expenses of selling and marketing staff, and (iii) payment handling costs associated with the purchase by readers of Cloudary's premium content or virtual items. The following table sets forth a breakdown of selling and marketing expenses by amount and as a percentage of total revenues for 2014:

|   | <b>For the year ended December 31, 2014</b> |             |
|---|---|-------------|
|   | <b>RMB</b>                                  | <b>%</b>    |
|   | <b>(in thousands, except percentages)</b>   |             |
| Promotion and advertising expenses.....           | 152,258                                     | 13.5        |
| Employee benefits expenses .....                  | 39,797                                      | 3.5         |
| Payment handling costs .....                      | 27,329                                      | 2.4         |
| Others .....                                      | 41,372                                      | 3.6         |
| <b>Total selling and marketing expenses .....</b> | <b>260,756</b>                              | <b>23.0</b> |

### *General and Administrative Expenses*

General and administrative expenses primarily consist of (i) employee benefits expenses associated with the administration of the business of Cloudary and (ii) provision for doubtful receivables relates to the provision for write-downs of receivables, primarily from advertising and copyright service partners of Cloudary. The following table sets forth a breakdown of general and administrative expenses by amount and as a percentage of total revenues for 2014:

|   | <b>For the year ended December 31, 2014</b> |             |
|---|---|-------------|
|   | <b>RMB</b>                                  | <b>%</b>    |
|   | <b>(in thousands, except percentages)</b>   |             |
| Employee benefits expenses.....                       | 79,381                                      | 7.0         |
| Provision for doubtful receivables .....              | 55,157                                      | 4.9         |
| Others .....  | 83,322                                      | 7.3         |
| <b>Total general and administrative expenses.....</b> | <b>217,860</b>                              | <b>19.2</b> |

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### *Operating Loss*

The following table sets forth the operating loss and operating margin for 2014:

|                      | <u>For the year ended December 31, 2014</u> |          |
|----------------------|---|----------|
|                      | <u>RMB</u>                                  | <u>%</u> |
|                      | <u>(in thousands, except percentages)</u>   |          |
| Operating loss ..... | 60,342                                      | 5.3      |

### *Net Loss*

The following table sets forth loss and net margin for 2014:

|                | <u>For the year ended December 31, 2014</u> |          |
|----------------|---|----------|
|                | <u>RMB</u>                                  | <u>%</u> |
|                | <u>(in thousands, except percentages)</u>   |          |
| Net loss ..... | 104,442                                     | 9.2      |

### **NON-IFRS MEASURES: ADJUSTED OPERATING PROFIT/(LOSS), ADJUSTED EBITDA AND ADJUSTED NET PROFIT/(LOSS)**

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use three non-IFRS measures, including adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss), as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We believe that these measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss) may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted operating profit/(loss) as profit/(loss) from operations for the year adjusted by adding back share-based compensation, net (gain) from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment



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provision for intangible assets and one-off listing expenses. We define adjusted EBITDA as EBITDA (which is profit from operations less other gain/(loss), net and plus depreciation and amortisation expenses) for the year adjusted by adding share-based compensation and one-off listing expenses. We define adjusted net profit/(loss) as net profit/(loss) for the year adjusted by adding back share-based compensation, net (gain) from investee companies, amortization of intangible assets resulting from acquisitions, net (gain)/loss from convertible bonds, impairment provision for intangible assets, one-off listing expenses and tax effects. The following tables reconcile our adjusted operating profit/(loss), adjusted EBITDA and adjusted net profit/(loss) for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which are net profit/(loss) for the year and operating profit/(loss) for the year:

|   | For the year ended December 31, |                 |                | For the six months<br>ended June 30, |                |
|---|---------------------------------|-----------------|----------------|--------------------------------------|----------------|
|   | 2014                            | 2015            | 2016           | 2016                                 | 2017           |
|   | (RMB in thousands)              |                 |                |                                      |                |
| Reconciliation of operating profit/(loss) to<br>adjusted operating profit/(loss): |                                 |                 |                |                                      |                |
| Operating profit/(loss) for the period .....                                      | 3,979                           | (307,760)       | 33,323         | 4,669                                | 221,969        |
| Add:  |                                 |                 |                |                                      |                |
| Share-based compensation.....   | 6,578                           | 131,786         | 78,023         | 39,159                               | 52,600         |
| Net (gain) from investee companies <sup>(1)</sup> .....                           | —                               | (32,544)        | (33,000)       | (13,992)                             | (66,299)       |
| Amortization of intangible assets <sup>(2)</sup> .....                            | 9,717                           | 89,126          | 82,965         | 41,442                               | 32,906         |
| Net (gain)/loss from convertible bonds <sup>(3)</sup> ...                         | —                               | 84,837          | (92,207)       | (92,207)                             | —              |
| Impairment provision <sup>(4)</sup> .....   | —                               | 5,700           | 49,000         | —                                    | 51,200         |
| One-off listing expenses .....  | —                               | —               | —              | —                                    | 29,791         |
| <b>Adjusted operating profit/(loss) .....</b>                                     | <b>20,274</b>                   | <b>(28,855)</b> | <b>118,104</b> | <b>(20,929)</b>                      | <b>322,167</b> |

*Note:*

- (1) Include fair value gain of investment in redeemable shares of an associate, gain on disposal of an associate and subsidiaries and fair value gain of consideration payables related to the acquisition of non-controlling interests.
- (2) Represent amortization of intangible assets resulting from acquisitions.
- (3) Include fair value loss of convertible bonds and gain on redemption of convertible bonds.
- (4) Include impairment provision for intangible assets.

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|   | For the year ended December 31, |               |                | For the six months<br>ended June 30, |                |
|---|---------------------------------|---------------|----------------|--------------------------------------|----------------|
|   | 2014                            | 2015          | 2016           | 2016                                 | 2017           |
|   | (RMB in thousands)              |               |                |                                      |                |
| Reconciliation of operating profit/(loss) to EBITDA and adjusted EBITDA |                                 |               |                |                                      |                |
| Operating profit/(loss) for the period .....                            | 3,979                           | (307,760)     | 33,323         | 4,669                                | 221,969        |
| Add:  |                                 |               |                |                                      |                |
| Other (gain)/loss, net .....  | 129                             | (6,863)       | (133,916)      | (140,576)                            | (50,674)       |
| Depreciation of property, plant and equipment .....                     | 1,409                           | 12,284        | 14,531         | 7,351                                | 13,688         |
| Amortization of intangible assets .....                                 | 23,468                          | 221,454       | 192,464        | 102,150                              | 81,062         |
| EBITDA .....  | 28,985                          | (80,885)      | 106,402        | (26,406)                             | 266,045        |
| Add:  |                                 |               |                |                                      |                |
| Share-based compensation .....  | 6,578                           | 131,786       | 78,023         | 39,159                               | 52,600         |
| One-off listing expenses .....  | —                               | —             | —              | —                                    | 29,791         |
| <b>Adjusted EBITDA</b> .....  | <b>35,563</b>                   | <b>50,901</b> | <b>184,425</b> | <b>12,753</b>                        | <b>348,436</b> |

|  | For the year ended December 31, |                 |               | For the six months ended<br>June 30, |                |
|--|---------------------------------|-----------------|---------------|--------------------------------------|----------------|
|  | 2014                            | 2015            | 2016          | 2016                                 | 2017           |
|  | (RMB in thousands)              |                 |               |                                      |                |
| Reconciliation of net profit/(loss) to adjusted net profit/(loss): |                                 |                 |               |                                      |                |
| Net profit/(loss) for the period .....                             | (21,130)                        | (354,159)       | 30,360        | (2,381)                              | 213,489        |
| Add:   |                                 |                 |               |                                      |                |
| Share-based compensation .....                                     | 6,578                           | 131,786         | 78,023        | 39,159                               | 52,600         |
| Net (gain) from investee companies <sup>(1)</sup> .....            | —                               | (34,522)        | (42,150)      | (23,942)                             | (66,299)       |
| Amortization of intangible assets <sup>(2)</sup> .....             | 9,717                           | 89,126          | 82,965        | 41,442                               | 32,906         |
| Net (gain)/loss from convertible bonds <sup>(3)</sup> .....        | —                               | 84,837          | (92,207)      | (92,207)                             | —              |
| Impairment provision <sup>(4)</sup> .....                          | —                               | 5,700           | 49,000        | —                                    | 51,200         |
| One-off listing expenses .....                                     | —                               | —               | —             | —                                    | 29,791         |
| Tax effects .....  | (2,429)                         | (17,015)        | (24,867)      | (6,862)                              | (10,845)       |
| <b>Adjusted net profit/(loss)</b> .....                            | <b>(7,264)</b>                  | <b>(94,247)</b> | <b>81,124</b> | <b>(44,791)</b>                      | <b>302,842</b> |

*Note:*

- (1) Include fair value gain of investment in redeemable shares of an associate, dilution gain, impairment of associate, gain on disposal of an associate and subsidiaries and fair value gain of consideration payables related to the acquisition of non-controlling interests.
- (2) Represent amortization of intangible assets resulting from acquisitions.
- (3) Include fair value loss of convertible bonds and gain on redemption of convertible bonds.
- (4) Include impairment provision for intangible assets.

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### PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2017

##### *Revenues*

Our total revenues increased by 92.5% from RMB999.6 million in the six months ended June 30, 2016 to RMB1.9 billion in the six months ended June 30, 2017.

##### *Online reading*

Our online reading revenues increased by 125.9% from RMB723.4 million in the six months ended June 30, 2016 to RMB1.6 billion in the six months ended June 30, 2017.

*Online reading on our products and self-operated channels.* Revenues from online reading on our products and self-operated channels increased by 128.7% from RMB619.7 million in the six months ended June 30, 2016 to RMB1.4 billion in the six months ended June 30, 2017, due to the increase in the number of paying users and the increase in average revenue per paying user. The average MPUs of our products and our self-operated channels increased by 68.9% from 6.8 million in the six months ended June 30, 2016 to 11.5 million in the six months ended June 30, 2017. The average revenue per paying user increased by 35.5% from RMB90.6 in six months ended June 30, 2016 to RMB122.8 in six months ended June 30, 2017. The increase in the number of paying users and average revenue per paying users are a result of our users' increased willingness to pay for premium online literature content and the general increase in user engagement supported by our expanded cooperation with Tencent and mobile device manufacturers. The paying ratio (defined as average MPUs/average MAUs) increased from 4.4% in the six months ended June 30, 2016 to 6.0% in the six months ended June 30, 2017.

*Online reading on third-party platforms.* Revenues from online reading on third-party platforms increased by 108.8% from RMB103.6 million in the six months ended June 30, 2016 to RMB216.5 million in the six months ended June 30, 2017, primarily due to our expanded network of third-party distribution channels which enable us to engage the growing user base and the growth of the online reading revenues generated through most of our existing third-party partners, partially offset by the decrease of such through *China Mobile*.

##### *Intellectual property operations*

Revenues from intellectual property operations increased by 43.3% from RMB108.6 million in the six months ended June 30, 2016 to RMB155.7 million in the six months ended June 30, 2017, primarily due to the increase of revenues from licensing copyrights for the adaptation of animations, films as well as TV and web series, the growth and strengthening of our content, its growing commercial value, our increasing pricing and bargaining power in terms of licensing copyrights to content adaptation partners, as well as the rising demand from our content adaptation partners for our high quality literary titles.

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In addition, we launched our animation production and distribution business in late 2015 to roll out derivative products, and generated RMB5.3 million and RMB32.8 million in revenues in the six months ended June 30, 2016 and the six months ended June 30, 2017, respectively.

### *Physical books*

Revenues from physical books decreased by 13.6% from RMB108.7 million in the six months ended June 30, 2016 to RMB93.9 million in the six months ended June 30, 2017.

### *Others*

Revenue from others decreased by 30.7% from RMB58.9 million in the six months ended June 30, 2016 to RMB40.9 million in the six months ended June 30, 2017, primarily due to the decrease in online games revenues and the decrease in online advertising revenues. The decrease in online games revenues was primarily a result of our transition from publishing and operating PC games to mobile games, and two of our self-developed popular online games reaching the end of their life cycles in 2016. The decrease in online advertising revenues was primarily a result of our continued efforts to limit the online advertising business to improve on our user experience.

### *Cost of Revenues*

Our cost of revenues increased by 62.7% from RMB591.4 million in the six months ended June 30, 2016 to RMB962.0 million in the six months ended June 30, 2017, primarily due to the increase in content costs and online reading platform distribution costs. Content costs increased by 96.7% from RMB297.4 million in the six months ended June 30, 2016 to RMB585.1 million in the six months ended June 30, 2017, primarily due to the increase in our online reading and intellectual property operations revenues and the resulting higher amount of fees paid to a growing number of contracted writers pursuant to the fixed fees or revenue-sharing arrangements. Online reading platform distribution costs increased significantly by 152.1% from RMB49.2 million in the six months ended June 30, 2016 to RMB124.0 million in the six months ended June 30, 2017, primarily due to our increasing revenue of online reading on our self-operated channels on Tencent products.

### *Gross profit and gross margin*

As the growth rate of total revenue exceeded the growth rate of cost of revenue, our gross profit increased by 135.7% from RMB408.2 million in the six months ended June 30, 2016 to RMB962.2 million in the six months ended June 30, 2017. Our gross margin increased from 40.8% in the six months ended June 30, 2016 to 50.0% in the six months ended June 30, 2017 primarily as a result of the shift of business towards online reading and intellectual property operations as well as the increased scale economies.

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### *Selling and marketing expenses*

Our selling and marketing expenses increased by 32.9% from RMB351.7 million in the six months ended June 30, 2016 to RMB467.4 million in the six months ended June 30, 2017, primarily due to the increase in promotion and advertising expenses and payment handling cost. Promotion and advertising expenses increased by 19.5% from RMB248.4 million in the six months ended June 30, 2016 to RMB296.9 million in the six months ended June 30, 2017, as we expanded our efforts in the marketing of our products and promotion of our brands. Payment handling cost increased by 194.2% from RMB34.1 million in the six months ended June 30, 2016 to RMB100.4 million in the six months ended June 30, 2017 due to the significant increase in online reading revenue and more payments handled by channels with higher charge rates.

### *General and administrative expenses*

Our general and administrative expenses increased by 68.2% from RMB192.4 million in the six months ended June 30, 2016 to RMB323.5 million in the six months ended June 30, 2017, primarily due to higher employee benefits expenses and professional service fees. Employee benefits expenses for general and administrative personnel increased by 39.2% from RMB126.9 million in the six months ended June 30, 2016 to RMB176.6 million in the six months ended June 30, 2017, primarily due to an increase in employee payroll in the six months ended June 30, 2017. In addition, professional service fees increased by 170.0% from RMB15.9 million in the six months ended June 30, 2016 to RMB43.0 million in the six months ended June 30, 2017, primarily due to the increase in listing expenses for initial public offering in Hong Kong.

### *Other gains, net*

Our net other gains decreased significantly from RMB140.6 million in the six months ended June 30, 2016 to RMB50.7 million in the six months ended June 30, 2017, primarily due to the gain on redemption of convertible bonds of RMB92.2 million in the six months ended June 30, 2016 and the gain on disposals of subsidiaries including Foch and Tianjing Ruinuo of RMB60.9 million in the six month ended June 30, 2017, partially offset by impairment loss of intangible assets of RMB51.2 million recorded in the six months ended June 30, 2017.

### *Operating profit/(loss)*

As a result of the foregoing, we had an operating profit of RMB4.7 million in the six months ended June 30, 2016 and an operating profit of RMB222.0 million in the six months ended June 30, 2017.

### *Finance costs*

Our finance costs increased from RMB12.4 million in the six months ended June 30, 2016 to RMB20.4 million in the six months ended June 30, 2017, primarily due to the increase in interest expense as a result of our increased amount of borrowings from a total of RMB539.8 million as of June 30, 2016 to a total of RMB715.6 million as of June 30, 2017.

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### *Finance income*

Our finance income increased significantly from RMB2.0 million in the six months ended June 30, 2016 to RMB12.2 million in the six months ended June 30, 2017, due to increase in interest income on bank deposits.

### *Share of profits of investments accounted for using equity method*

Our share of profits of investments accounted for using equity method increased from RMB10.6 million in the six months ended June 30, 2016 to RMB29.9 million in the six months ended June 30, 2017.

### *Profit/(loss) before income tax*

As a result of the foregoing, we had a profit before income tax of RMB243.7 million in the six months ended June 30, 2017, compared with a profit before income tax of RMB4.9 million in the six months ended June 30, 2016.

### *Income tax expense*

Our income tax expense significantly increased from RMB7.2 million in the six months ended June 30, 2016 to RMB30.2 million in the six months ended June 30, 2017, primarily due to the RMB238.8 million increase in profit before income tax and the decrease in the unrecognised deferred tax assets of RMB9.6 million.

### *Net profit/(loss) for the period*

As a result of the foregoing, we had a net profit of RMB213.5 million in the six months ended June 30, 2017, compared with a net loss of RMB2.4 million in the six months ended June 30, 2016.

## **Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

### *Revenues*

Our total revenues increased by 59.1% from RMB1.6 billion in 2015 to RMB2.6 billion in 2016.

### *Online reading*

Our online reading revenues increased by 103.3% from RMB970.9 million in 2015 to RMB2.0 billion in 2016.

*Online reading on our products and self-operated channels.* Revenues from online reading on our products and self-operated channels increased by 118.6% from RMB788.8 million in 2015 to RMB1.7 billion in 2016, primarily due to the increase in the number of paying users. The average MPUs of our products and of our self-operated channels increased by 118.4% from 3.8 million in 2015 to 8.3 million in 2016. The increase in paying users is a result of the increase in our average MAUs, our

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users' increased willingness to pay for premium online literature content, and the general increase in user engagement supported by our expanded cooperation with Tencent and mobile device manufacturers. The average MAUs of our products and of our self-operated channels increased by 45.1% from 117.1 million in 2015 to 169.9 million in 2016. The paying ratio (defined as average MPUs/average MAUs) increased from 3.3% in 2015 to 4.9% in 2016, while the number of online literary titles available in our library increased by 17.8% from 7.1 million as of December 31, 2015 to 8.4 million as of December 31, 2016.

*Online reading on third-party platforms.* Revenues from online reading on third-party platforms increased by 37.2% from RMB182.1 million in 2015 to RMB250.0 million in 2016, primarily due to our expanded network of third-party distribution channels and the growth of the online reading revenues generated through most of our existing third-party partners, partially offset by the decrease of such through *China Mobile*.

### *Intellectual property operations*

Revenues from intellectual property operations increased by 52.0% from RMB162.8 million for the year in 2015 to RMB247.4 million in 2016, primarily due to the growth and strengthening of our content, its growing commercial value, as well as the rising demand from our content adaptation partners for our high quality literary titles.

In addition, we launched our animation production and distribution business in late 2015, and generated RMB0.2 million and RMB32.8 million in revenues in 2015 and 2016, respectively.

### *Physical books*

Revenues from physical books decreased slightly by 2.0% from RMB228.5 million in 2015 to RMB224.0 million in 2016.

### *Others*

Revenue from others decreased by 54.4% from RMB244.4 million in 2015 to RMB111.4 million in 2016, primarily due to the decrease in online games revenues and the decrease in online advertising revenues. The decrease in online games revenues was primarily a result of our transition from publishing and operating PC games to mobile games, and two of our self-developed popular online games reaching the end of their life cycles in 2016. The decrease in online advertising revenues was primarily a result of our efforts to limit the online advertising business to improve on our user experience.

### *Cost of Revenues*

Our cost of revenues increased by 46.4% from RMB1.0 billion in 2015 to RMB1.5 billion in 2016, primarily due to the increase in content costs and online reading platform distribution costs. Content costs increased by 114.3% from RMB391.4 million in 2015 to RMB839.0 million in 2016, primarily due to the increase in our online reading and intellectual property operations revenues and



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the resulting higher amount of fees paid to writers pursuant to the revenue-sharing arrangements. Online reading platform distribution costs increased significantly by 308.5% from RMB37.4 million in 2015 to RMB153.0 million in 2016, primarily due to our expanded Tencent content distribution network.

### *Gross profit and gross margin*

As a result of the foregoing, our gross profit increased by 81.7% from RMB580.5 million in 2015 to RMB1.1 billion in 2016. Our gross margin increased from 36.1% in 2015 to 41.3% in 2016.

### *Selling and marketing expenses*

Our selling and marketing expenses increased by 36.1% from RMB539.6 million in 2015 to RMB734.2 million in 2016, primarily due to the increase in promotion and advertising expenses. Promotion and advertising expenses increased by 65.6% from RMB296.7 million in 2015 to RMB491.4 million in 2016, as we expanded our efforts in the marketing of our products and promotion of our brands.

### *General and administrative expenses*

Our general and administrative expenses increased by 18.5% from RMB355.5 million in 2015 to RMB421.3 million in 2016, primarily due to higher employee benefits expenses. Employee benefits expenses for general and administrative personnel increased by 21.4% from RMB226.5 million in 2015 to RMB274.8 million in 2016, primarily due to increase in staff headcount and higher average compensation level for our general and administrative staff due to a higher mix of engineers. Our research and development expenditure also increased between 2015 and 2016 as we worked to further improve our user experience.

### *Other gains, net*

Our net other gains increased significantly from RMB6.9 million in 2015 to RMB133.9 million in 2016, primarily due to the gain on redemption of convertible bonds of RMB92.2 million in 2016, resulting from the assumption, replacement and redemption of certain convertible bonds first issued by Cloudary in June 2013, while a fair value loss of RMB84.8 million was recorded in 2015. In addition, the impairment loss of intangible assets has increased from RMB5.7 million in 2015 to RMB49.0 million in 2016. The impairment loss of intangible assets in 2015 was related to the trademark of a continuously loss-making affiliated entity of Cloudary and we have revisited the future business plan of this entity after we acquired Cloudary in 2014, while the impairment loss of intangible assets in 2016 was related to the distribution channel relationship with telecom operators, as in 2016 there was a notable decline in actual and expected revenue derived from the business cooperation with those telecom operators compared with actual and projected results of relevant prior periods.

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### *Operating profit/(loss)*

As a result of the foregoing, we had an operating loss of RMB307.8 million in 2015 and an operating profit of RMB33.3 million in 2016.

### *Finance costs*

Our finance costs increased from RMB16.9 million in 2015 to RMB27.1 million in 2016, primarily due to the increase in interest expense as a result of our increased amount of borrowings from a total of RMB300.2 million as of December 31, 2015 to a total of RMB541.6 million as of December 31, 2016.

### *Finance income*

Our finance income increased from RMB1.7 million in 2015 to RMB3.9 million in 2016, due to increase in interest income on bank deposits.

### *Share of profits of investments accounted for using equity method*

Our share of profits of investments accounted for using equity method increased from RMB5.8 million in 2015 to RMB28.1 million in 2016.

### *Profit/(loss) before income tax*

As a result of the foregoing, we had a profit before income tax of RMB38.3 million in 2016, compared with a loss before income tax of RMB317.1 million in 2015.

### *Income tax expense*

Our income tax expense significantly decreased from RMB37.0 million in 2015 to RMB8.0 million in 2016, primarily due to the de-recognition of RMB9.9 million previously recognized deferred tax assets based on the assessment of recoverability in 2015, the reversal of the deferred tax liability of RMB12.3 million along with the impairment provision against distribution channel relationship in 2016, and utilization of un-recognized tax losses and other temporary difference of prior years in 2016.

### *Net profit/(loss) for the year*

As a result of the foregoing, we had a net profit of RMB30.4 million in 2016, compared with a net loss of RMB354.2 million in 2015.

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### Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

#### *Revenues*

Our total revenues increased significantly by 244.6% from RMB466.2 million in 2014 to RMB1.6 billion in 2015.

Revenues from online reading on our products and our self-operated channels increased by 78.4% from RMB442.0 million in 2014 to RMB788.8 million in 2015, primarily due to the increase in the number of paying users. The increase in paying users is primarily a result of our acquisition of Cloudary at the end of 2014.

We did not generate any significant amount of revenues from any other business line in 2014. We began to generate significant amount of revenues from our other business lines after our acquisition of Cloudary at the end of 2014.

#### *Cost of Revenues*

Our cost of revenues increased significantly by 288.7% from RMB264.0 million in 2014 to RMB1.0 billion in 2015. The significant increase in cost of revenues is primarily a result of our acquisition of Cloudary at the end of 2014 and the consolidation of its cost of revenues in 2015.

#### *Gross profit and gross margin*

As a result of the foregoing, our gross profit increased significantly by 187.0% from RMB202.2 million in 2014 to RMB580.5 million in 2015. Our gross margin decreased from 43.4% in 2014 to 36.1% in 2015.

#### *Selling and marketing expenses*

Our selling and marketing expenses increased significantly by 324.2% from RMB127.2 million in 2014 to RMB539.6 million in 2015, primarily due to our acquisition of Cloudary at the end of 2014 and the consolidation of its selling and marketing expenses in 2015.

#### *General and administrative expenses*

Our general and administrative expenses increased significantly by 401.3% from RMB70.9 million in 2014 to RMB355.5 million in 2015, primarily due to our acquisition of Cloudary at the end of 2014 and the consolidation of its general and administrative expenses in 2015.

#### *Income tax expense*

Our income tax expense increased from RMB25.2 million in 2014 to RMB37.0 million in 2015, primarily due to the increased income tax expense incurred by certain profit-making affiliated entities of Cloudary after we acquired Cloudary in 2014.

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### *Net loss for the year*

Primarily as a result of the foregoing, our net loss increased from RMB21.1 million in 2014 to RMB354.2 million in 2015.

### DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in the Accountant's Report in Appendix I to this document. Our consolidated statements of financial position as of December 31, 2014 included the balance sheets of Cloudary as of the same date.

|   | As of December 31,    |                  |                  | As of June 30,   |
|---|-----------------------|------------------|------------------|------------------|
|   | 2014                  | 2015             | 2016             | 2017             |
|   | (in thousands of RMB) |                  |                  |                  |
| Total non-current assets .....            | 5,022,976             | 5,025,715        | 5,016,493        | 5,713,336        |
| Total current assets .....                | 1,360,433             | 1,355,375        | 2,115,212        | 2,684,059        |
| <b>Total assets</b> .....                 | <b>6,383,409</b>      | <b>6,381,090</b> | <b>7,131,705</b> | <b>8,397,395</b> |
| Total share capital.....                  | 409                   | 409              | 431              | 452              |
| Total share premium .....                 | 4,658,606             | 4,658,606        | 5,311,029        | 5,998,773        |
| Total other reserves.....                 | (38,201)              | 94,563           | 210,878          | 243,938          |
| Total accumulated losses.....             | (21,663)              | (378,110)        | (356,113)        | (144,093)        |
| Total non-controlling interests.....      | 68,608                | 82,491           | 42,057           | 36,420           |
| <b>Total equity</b> .....                 | <b>4,667,759</b>      | <b>4,457,959</b> | <b>5,208,282</b> | <b>6,135,490</b> |
| Total non-current liabilities.....        | 327,829               | 362,831          | 264,957          | 722,613          |
| Total current liabilities.....            | 1,387,821             | 1,560,300        | 1,658,466        | 1,539,292        |
| <b>Total liabilities</b> .....            | <b>1,715,650</b>      | <b>1,923,131</b> | <b>1,923,423</b> | <b>2,261,905</b> |
| <b>Total equity and liabilities</b> ..... | <b>6,383,409</b>      | <b>6,381,090</b> | <b>7,131,705</b> | <b>8,397,395</b> |

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The following table sets forth our assets and liabilities as of the dates indicated:

|   | As of December 31,    |                  |                  | As of June 30,   |
|---|-----------------------|------------------|------------------|------------------|
|   | 2014                  | 2015             | 2016             | 2017             |
|   | (in thousands of RMB) |                  |                  |                  |
| <b>Non-current assets</b>                                     |                       |                  |                  |                  |
| Property, plant and equipment.....                            | 29,077                | 37,370           | 45,018           | 42,981           |
| Intangible assets .....                                       | 4,903,843             | 4,820,629        | 4,681,540        | 4,611,982        |
| Investments accounted for using the<br>equity method.....     | 45,676                | 40,493           | 127,158          | 269,692          |
| Investment in redeemable shares of an<br>associate.....       | —                     | 74,008           | 106,508          | 175,000          |
| Derivative financial assets .....                             | —                     | 8,400            | 7,500            | 12,407           |
| Deferred income tax assets.....                               | 32,922                | 25,693           | 28,429           | 27,686           |
| Prepayments, deposits and other assets ....                   | 11,458                | 19,122           | 20,340           | 22,395           |
| Term deposit.....   | —                     | —                | —                | 467,434          |
| Other investments .....                                       | —                     | —                | —                | 83,759           |
| <b>Current assets</b>   |                       |                  |                  |                  |
| Inventories.....  | 153,120               | 147,892          | 137,920          | 165,914          |
| Trade and notes receivables .....                             | 226,341               | 178,325          | 549,952          | 579,709          |
| Prepayments, deposits and other assets ....                   | 76,560                | 400,619          | 621,929          | 322,705          |
| Short-term investments.....                                   | 66,486                | 287,449          | 368,271          | 85,818           |
| Term deposits .....   | 7,909                 | 10,000           | —                | —                |
| Cash and cash equivalents.....                                | 830,017               | 331,090          | 404,915          | 1,529,913        |
| Assets of disposal group classified as<br>held for sale ..... | —                     | —                | 32,225           | —                |
| <b>Total assets</b> .....                                     | <b>6,383,409</b>      | <b>6,381,090</b> | <b>7,131,705</b> | <b>8,397,395</b> |

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|   | As of December 31,    |           |           | As of June 30, |
|---|-----------------------|-----------|-----------|----------------|
|   | 2014                  | 2015      | 2016      | 2017           |
|   | (in thousands of RMB) |           |           |                |
| <b>Non-current liabilities</b>                                  |                       |           |           |                |
| Put option liability .....                                      | 65,396                | 69,273    | —         | —              |
| Borrowings .....  | —                     | 247       | —         | 475,000        |
| Deferred income tax liabilities .....                           | 247,877               | 245,503   | 220,993   | 204,839        |
| Deferred revenue .....  | —                     | 46,308    | 43,964    | 42,774         |
| Other non-current liabilities .....                             | 14,556                | 1,500     | —         | —              |
| <b>Current liabilities</b>                                      |                       |           |           |                |
| Put option liability .....                                      | —                     | —         | 73,455    | 75,608         |
| Borrowings .....  | 200,000               | 300,000   | 541,622   | 240,646        |
| Trade payables .....  | 225,893               | 222,867   | 419,697   | 522,221        |
| Other payables and accruals .....                               | 337,056               | 297,389   | 377,007   | 373,313        |
| Deferred revenue .....  | 98,122                | 146,173   | 232,421   | 303,242        |
| Convertible bonds .....   | 471,775               | 577,930   | —         | —              |
| Current income tax liabilities .....                            | 54,975                | 15,941    | 10,834    | 24,262         |
| Liabilities of disposal group classified as held-for-sale ..... | —                     | —         | 3,430     | —              |
| <b>Total liabilities</b> .....                                  | 1,715,650             | 1,923,131 | 1,923,423 | 2,261,905      |
| <b>Net assets</b> .....   | 4,667,759             | 4,457,959 | 5,208,282 | 6,135,490      |

The following table sets forth our current assets and current liabilities as of the dates indicated:

|  | As of December 31,    |           |           | As of       | As of      |
|--|-----------------------|-----------|-----------|-------------|------------|
|  | 2014                  | 2015      | 2016      | June 30,    | August 31, |
|  | (in thousands of RMB) |           |           | (unaudited) |            |
| <b>Current assets</b>                                      |                       |           |           |             |            |
| Inventories .....  | 153,120               | 147,892   | 137,920   | 165,914     | 171,867    |
| Trade and notes receivables .....                          | 226,341               | 178,325   | 549,952   | 579,709     | 551,382    |
| Prepayments, deposits and other assets .....               | 76,560                | 400,619   | 621,929   | 322,705     | 312,352    |
| Other investments .....                                    | 66,486                | 287,449   | 368,271   | 85,818      | 154,312    |
| Term deposits .....  | 7,909                 | 10,000    | —         | —           | —          |
| Cash and cash equivalents .....                            | 830,017               | 331,090   | 404,915   | 1,529,913   | 1,541,674  |
| Assets of disposal group classified as held for sale ..... | —                     | —         | 32,225    | —           | —          |
| <b>Total current assets</b> .....                          | 1,360,433             | 1,355,375 | 2,115,212 | 2,684,059   | 2,731,587  |

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|  | As of December 31,    |           |           | As of       | As of      |
|--|-----------------------|-----------|-----------|-------------|------------|
|  | 2014                  | 2015      | 2016      | June 30,    | August 31, |
|  | (in thousands of RMB) |           |           | 2017        | 2017       |
|  |                       |           |           | (unaudited) |            |
| <b>Current liabilities</b>                   |                       |           |           |             |            |
| Put option liability .....                   | —                     | —         | 73,455    | 75,608      | —          |
| Borrowings .....                             | 200,000               | 300,000   | 541,622   | 240,646     | 200,000    |
| Trade payables .....                         | 225,893               | 222,867   | 419,697   | 522,221     | 511,277    |
| Other payables and accruals .....            | 337,056               | 297,389   | 377,007   | 373,313     | 373,688    |
| Deferred revenue .....                       | 98,122                | 146,173   | 232,421   | 303,242     | 276,779    |
| Convertible bonds .....                      | 471,775               | 577,930   | —         | —           | —          |
| Current income tax liabilities .....         | 54,975                | 15,941    | 10,834    | 24,262      | 30,998     |
| Liabilities of disposal group                |                       |           |           |             |            |
| classified as held-for-sale .....            | —                     | —         | 3,430     | —           | —          |
| <b>Total current liabilities</b> .....       | 1,387,821             | 1,560,300 | 1,658,466 | 1,539,292   | 1,392,742  |
| <b>Net current assets/(liabilities)</b> .... | (27,388)              | (204,925) | 456,746   | 1,144,767   | 1,338,845  |

### *Intangible Assets*

Our intangible assets include goodwill, acquired trademarks, copyrights of contents, other intangible assets acquired in a business combination and other intangible assets.

During the Track Record Period, our goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary and the acquisition of the entities operating online literature business through the brand of Chuangshi in 2014 and from the acquisition of 51% equity interest in Shanghai Foch Film Culture Investment Co., Ltd. and the acquisition of 67% equity interests in Beijing Lemeng Technology Co., Ltd. in 2015.

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2015 and 2016 according to IAS 36 “Impairment of assets”. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group as one cash-generating unit, since the Group has fully integrated the business of the acquired business and is expected to benefit from the synergies of the combination. Moreover, for the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. Under paragraph 33(b) of IAS 36, a period longer than five years can be used if it is justifiable, and the management of the Group used a ten-year period, which takes into account the length of the post projection period for the cash flow forecast will be perpetuity, and this shall be achieved by identifying a ‘steady state’ set of assumptions for the cash flows in the last year of the forecasts and applying a terminal value multiple to those cash flows. Therefore, given the Group expects to maintain an extended high growth rate over a period longer than 5 years, management of the Group considers that the Group’s business is expected to reach a steady and stable terminal growth state likely after a 10-year period of gradually declining revenue growth.



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While the industry expert projects industry growth for a period of five years till 2020, as the management has over 15 years' operational experience in the online literature industry, many of whom help create the industry at its inception, the management believes they are better positioned to forecast cash flows for an extended period over and beyond 5 years. The expected annual growth rates over the ten-year forecast period are based on the Group's past performance and management's expectation of future market and business developments. It is also assumed that our Group's estimated annual revenue growth rate will decrease steadily during the ten-year period based on the most recent explicit forecasts for the period from 2017 to 2021 and the extrapolation of the projections from the aforementioned forecasts using a declining growth rate for subsequent five years. As of December 31, 2015 and 2016, key assumptions for goodwill used for value-in-use calculations include aforementioned annual growth rates of revenue ranged from 20% to 37% and 10% to 55%, respectively, and gross margin ranged from 36% to 55% and 46% to 49%, respectively. As at December 31, 2015 and 2016, the discount rate used of 21.9% and 22.2% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin was determined by the management based on past performance and its expectation for market development.

For the rest of intangible assets which are subject to annual amortization, taking into account of all relevant and available external and internal information such as (i) no significant adverse changes in the technological, market, economic or legal environments, (ii) steady business growth as expected, and (iii) no significant strategic and operational changes, we have assessed and concluded that, except for those intangible assets that have impairment indicators identified (such as change in our relationship with one distribution channel) and have already been provided with impairment provision during the Track Record Period, there is no indicator of impairment for the rest of intangible assets identified and hence no further impairment testing is considered necessary.

Based on the result of the goodwill impairment testing, the estimated recoverable amount exceeded its carrying amount by approximately RMB11,500,000,000 and RMB9,620,000,000 as of December 31, 2016 and 2015, respectively. 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 receivable amount. The following table shows the amount by which the assumption of annual revenue growth rate would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

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| In percent               | Change required for carrying amount<br>to equal recoverable amount   |  |
|--------------------------|--|--|
|                          | 2016   | 2015   |
| Annual growth rate ..... | Assuming the annual growth rate for each year during the ten-year period decreased by 22% and shall be no less than the terminal growth rate of 3% | Assuming the annual growth rate for each year during the ten-year period decreased by 16.5% and shall be no less than the terminal growth rate of 3% |

If the budgeted revenue growth rate for each year during the ten-year period used in the value-in-use calculation had been 5% lower than our management's estimates on December 31, 2015 and 2016, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB5,530 million and RMB7,200 million, respectively. If the pre-tax discount rate applied to the cash flow projections had been 5% higher than our management's estimates on December 31, 2015 and 2016, respectively, the estimated recoverable amount shall still exceed its carrying amount by approximately RMB3,750 million and RMB6,900 million, respectively.

Considering (i) the slower decreasing trend, which is 5% decrease for each year under sensitivity analysis as compared to 22% decrease for each year under breakeven analysis and (ii) the consequently comparatively greater discounting impact in the valuation model under sensitivity analysis compared to the same under breakeven analysis, the recoverable amount is significantly greater and the absolute change in the discounted amount is comparatively larger under sensitivity analysis as compared to that under the breakeven analysis.

The amortization period for copyrights of contents used exclusively for online reading, for comprehensive monetization (including online reading and intellectual property operations, etc.), and for physical books are 3 to 10 years, respectively. If an underlying agreement entered by us with the original owner of the copyrights of content provides for an amortization period less than three years or five years, we will amortize the corresponding copyrights of contents in accordance with the agreement.

Other intangible assets acquired in a business combination, including trademarks, writers' contract, distribution channel relationship and customer relationship, etc. are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and impairment losses, if any. The other intangible assets mainly include software and domain names, which are initially recognized and measured at cost or estimated fair value of intangible assets acquired through business combinations.

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The impairment of goodwill acquired in a business combination is allocated to each of CGU, or our CGUs that are expected to benefit from the synergies of the combination. For all the other types of intangible assets, amortization is allocated based on their corresponding estimated useful lives.

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

|  | As of December 31,    |           |           | As of June 30, |
|--|-----------------------|-----------|-----------|----------------|
|  | 2014                  | 2015      | 2016      | 2017           |
|  | (in thousands of RMB) |           |           |                |
| Goodwill.....                          | 3,715,659             | 3,726,435 | 3,715,659 | 3,720,323      |
| Trademarks .....                       | 657,752               | 618,474   | 586,474   | 568,558        |
| Copyrights of contents .....           | 207,034               | 203,888   | 204,114   | 208,981        |
| Writers' contracts.....                | 110,000               | 95,333    | 80,666    | 73,333         |
| Distribution channel relationship..... | 191,627               | 162,754   | 84,881    | 27,861         |
| Customers relationship.....            | 8,017                 | 1,743     | 1,169     | 882            |
| Software .....                         | 7,819                 | 7,077     | 4,823     | 8,559          |
| Domain names .....                     | 5,935                 | 4,925     | 3,754     | 3,485          |
| Total .....                            | 4,903,843             | 4,820,629 | 4,681,540 | 4,611,982      |

Our intangible assets decreased from RMB4.9 billion as of December 31, 2014 to RMB4.8 billion as of December 31, 2015, primarily due to an increase in amortization expense of RMB221.5 million in 2015, compared to RMB23.5 million in 2014, mainly incurred from the amortization of intangible assets as a result of our acquisition of Clouday in 2014 and the consolidation of Clouday's balance sheets on December 31, 2014. To a lesser extent, the decrease in intangible assets from December 31, 2014 to December 31, 2015 was also due to an impairment loss of trademarks of RMB5.7 million in connection with a trademark of Tianjin Under Banyan we acquired. We made such impairment loss of intangible assets in 2015 because we have been incurring losses from Tianjin Under Banyan and the performance has not been improved. Our intangible assets decreased from RMB4.8 billion as of December 31, 2015 to RMB4.7 billion as of December 31, 2016, primarily due to a decrease of distribution channel relationship of RMB49.0 million arising from an impairment loss of intangible assets we incurred in our distribution channel relationship with a telecom company and the amortisation charges of RMB192.5 million recorded in 2016. Our intangible assets decreased from RMB4.7 billion as of December 31, 2016 to RMB4.6 billion as of June 30, 2017, primarily due to a decrease of distribution channel relationship of RMB51.2 million arising from an impairment loss of intangible assets we incurred in our distribution channel relationship with a telecom company and the amortisation charges of RMB81.1 million recorded in the six month ended June 30, 2017.

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## FINANCIAL INFORMATION

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### *Investments Accounted for using the Equity Method*

Investments accounted for using the equity method includes investments in associates represent our investment in the share capital of companies consisting solely of ordinary shares and investments in joint ventures. The following table sets forth our investments in associates as of the dates indicated:

|  | As of December 31, |         |         | As of June 30,        |         |
|--|--------------------|---------|---------|-----------------------|---------|
|  | 2014               | 2015    | 2016    | 2016                  | 2017    |
|  |                    |         |         | (unaudited)           |         |
|  |                    |         |         | (in thousands of RMB) |         |
| At the beginning of the period .....         | —                  | 4,949   | 15,050  | 15,050                | 72,934  |
| Additions .....                              | —                  | 14,472  | 61,600  | 55,001                | 103,742 |
| Business combination.....                    | 4,949              | —       | —       | —                     | —       |
| Impairment provision .....                   | —                  | —       | (800)   | —                     | —       |
| Dividend from an associate.....              | —                  | —       | —       | —                     | (781)   |
| Disposals .....                              | —                  | —       | (3,083) | —                     | —       |
| Share of profit/(loss) of the associates ... | —                  | (4,371) | 167     | (4,173)               | 3,138   |
| At the end of the period.....                | 4,949              | 15,050  | 72,934  | 65,878                | 179,033 |

The total amount of our investments in associates increased from RMB4.9 million as of December 31, 2014 to RMB15.1 million as of December 31, 2015. Our total investments in associates increased significantly by 384.6% from RMB15.1 million as of December 31, 2015 to RMB72.9 million as of December 31, 2016, primarily due to the additional investments in four newly established associates we made in 2016, and these associates are mainly engaged in intellectual property operations. Our total investments in associates significantly increased by 145.5% from RMB72.9 million as of December 31, 2016 to RMB179.0 million as of June 30, 2017, primarily due to the additional investments in four associates and a joint venture we made in the six months ended June 30, 2017, and these associates mainly engage in intellectual property operations.

Investments in joint ventures mainly include Beijing Jinjiang Networking Technology Co., Ltd., which amounted to RMB40.7 million, RMB25.4 million, RMB54.2 million, RMB40.2 million and RMB83.6 million as of December 31, 2014, 2015 and 2016 and as of June 30, 2016 and 2017, respectively. We held 50% equity interests in Beijing Jinjiang during the Track Record Period while the remaining 50% equity interest was held by Independent Third Parties, namely two individual founders of *jjwxc.net*.

## FINANCIAL INFORMATION

### *Investments in Redeemable Shares of Associates*

We made investment in some redeemable convertible 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 the licensing of our certain copyrights to the investee for a certain period of time. Both of the investment and copyrights licensed are initially measured at fair value. The investment in redeemable shares of Foch arose from our transfer of 8% equity interest in Foch to a third party. After the equity transfer and the capital injection made by the same third party investor into Foch, we retained 38.7% equity interest in Foch, which carried redemption feature and was presented as redeemable shares in an associate in our consolidated statements of financial position. The following table sets forth our investment in redeemable shares of associates as of the dates indicated:

|   | As of December 31,    |        |         | As of June 30, |         |
|---|-----------------------|--------|---------|----------------|---------|
|   | 2014                  | 2015   | 2016    | 2016           | 2017    |
|   | (in thousands of RMB) |        |         |                |         |
| At the beginning of the period .....  | —                     | —      | 74,008  | 74,008         | 106,508 |
| Additions .....   | —                     | 47,242 | —       | —              | 63,000  |
| Fair value gain of investment in<br>redeemable shares of an associate ..... | —                     | 26,766 | 32,500  | 13,992         | 5,492   |
| At the end of the period .....  | —                     | 74,008 | 106,508 | 88,000         | 175,000 |

Our total investment in redeemable shares of an associate increased by 43.9% between 2015 and 2016 because of the appreciation of the fair value of the shares in such associate held by us, which in turn is because of the growth in the business operations of such associate and the appreciation in its overall valuation.

Our total investment in redeemable shares of associates increased by 64.3% between December 31, 2016 and June 30, 2017 mainly because of the addition of investment in redeemable shares of an associate of RMB63.0 million arising from transfer of equity interest in Foch.

As of December 31, 2015 and 2016 and June 30, 2016 and 2017, the Company used the “Backsolve” method to determine the fair value of investment in redeemable shares of the associate that engaged in provision of audio online publishing service and key assumptions used included the lack of control discount (“DLOC”) of 29% as of December 31, 2015, the risk-free interest rate of 2.9%, 2.64% and 3.52%, and expected volatility of 35%, 30% and 30% as of December 31, 2016, June 30, 2016 and 2017, respectively.

As of June 30, 2017, the Company used the “Backsolve” method to determine the fair value of investment in redeemable shares of Foch and key assumptions used included the risk-free interest rate of 3.52% and expected volatility of 40%.

## FINANCIAL INFORMATION

### *Inventories*

Our inventories consist of paper and physical books, as well as our animated works. The following table sets forth a breakdown of our inventories as of the dates indicated:

|  | As of December 31,    |                |                | As of June 30, |
|--|-----------------------|----------------|----------------|----------------|
|  | 2014                  | 2015           | 2016           | 2017           |
|  | (in thousands of RMB) |                |                |                |
| Raw materials .....  | 14,827                | 10,773         | 10,013         | 17,810         |
| Work in progress.....  | 33,874                | 27,137         | 30,873         | 29,919         |
| Inventory in self-owned warehouse .....                            | 106,448               | 105,310        | 64,094         | 68,198         |
| Inventory held with distributors on<br>consignment .....           | 94,504                | 101,527        | 90,184         | 95,568         |
| Others.....  | —                     | 2,302          | 13,833         | 31,796         |
| Less: provision for inventory<br>obsolescence <sup>(1)</sup> ..... | (96,533)              | (99,157)       | (71,077)       | (77,377)       |
| <b>Total</b> .....   | <u>153,120</u>        | <u>147,892</u> | <u>137,920</u> | <u>165,914</u> |

*Note:*

- (1) Provision for inventory obsolescence is recognized for the amount by which the carrying amount of the inventories exceeds the recoverable amount, and was recorded in cost of revenues. Provision for inventory obsolescence represented the provision against our books that remain unsold for a period of time or damaged while in our possession. Our books generally become less popular along with the passage of time since publication. For the purposes of the inventory provision assessment, we determine the historical turnover and the ageing of inventories and further assess the market and industry trends and projected demand. We use this information along with a range of progressive rates to determine provision for inventory obsolescence. Any damaged inventory is fully written off immediately.

Our inventories increased by 20.3% from RMB137.9 million as of December 31, 2016 to RMB165.9 million as of June 30, 2017, primarily due to the increase in animated works.

Our inventories decreased by 6.7% from RMB147.9 million as of December 31, 2015 to RMB137.9 million as of December 31, 2016, primarily due to the overall decrease of our physical books business.

Our inventories decreased by 3.4% from RMB153.1 million as of December 31, 2014 to RMB147.9 million as of December 31, 2015. Raw materials decreased by 27.3% from RMB14.8 million as of December 31, 2014 to RMB10.8 million as of December 31, 2015, primarily due to the use of an increased amount of raw materials for the production of books. Work in progress decreased by 19.9% from RMB33.9 million as of December 31, 2014 to RMB27.1 million as of December 31, 2015, primarily due to a decrease of the materials we delivered to printer for printing and a decrease of book production expenses.

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## FINANCIAL INFORMATION

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Approximately RMB72.6 million, or 43.7%, of our inventories as of June 30, 2017 had been sold as of August 31, 2017.

### *Trade and Notes Receivables*

Trade and notes receivables represent outstanding amount due from our customers or agents for the purchase of the services we performed or inventories we sold in the ordinary course of business. Trade and notes receivable are classified as current assets if they are expected to be collected in one year or less (or more than one year but within the normal operating cycle of the applicable business). Otherwise, they are presented as non-current assets.

The following table sets forth our trade and notes receivables as of the date indicated:

|   | As of December 31,    |                       |                       | As of June 30,        |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2014                  | 2015                  | 2016                  | 2017                  |
|   | (in thousands of RMB) |                       |                       |                       |
| Trade receivables .....                                     | 225,952               | 185,598               | 557,122               | 603,900               |
| Notes receivables .....                                     | 389                   | 1,360                 | 1,129                 | 334                   |
| <b>Sub-total</b> .....                                      | <b>226,341</b>        | <b>186,958</b>        | <b>558,251</b>        | <b>604,234</b>        |
| Less: allowance for impairment of trade<br>receivables..... | —                     | (8,633)               | (8,299)               | (24,525)              |
| <b>Total</b> .....  | <b><u>226,341</u></b> | <b><u>178,325</u></b> | <b><u>549,952</u></b> | <b><u>579,709</u></b> |

Our trade and notes receivables increased by 5.4% from RMB550.0 million as of December 31, 2016 to RMB579.7 million as of June 30, 2017, primarily due to the growing revenues of our third-party platforms and the increased receivables as a result.

Our trade and notes receivables increased significantly by 208.4% from RMB178.3 million as of December 31, 2015 to RMB550.0 million as of December 31, 2016, primarily due to the increased receivables from a related-party distribution partner.

Approximately RMB373.1 million, or 64.4%, of our trade and notes receivables as of June 30, 2017 had been settled as of August 31, 2017. Approximately RMB205.4 million (out of total balance of RMB322.6 million) of our trade and notes receivables due from related parties as of June 30, 2017 had been settled as of August 31, 2017.



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The following table sets forth an aging analysis of our trade and notes receivables, based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

|                          | As of December 31,    |         |         | As of June 30, |
|--------------------------|-----------------------|---------|---------|----------------|
|                          | 2014                  | 2015    | 2016    | 2017           |
|                          | (in thousands of RMB) |         |         |                |
| Up to 3 months .....     | 186,327               | 157,996 | 505,943 | 509,666        |
| 3 to 6 months .....      | 23,082                | 10,900  | 13,511  | 39,432         |
| 6 months to 1 year ..... | 5,112                 | 5,430   | 22,574  | 18,172         |
| 1 to 2 years .....       | 8,330                 | 2,020   | 4,690   | 8,741          |
| Over 2 years .....       | 3,490                 | 1,979   | 3,234   | 3,698          |
| Total .....              | 226,341               | 178,325 | 549,952 | 579,709        |

As of June 30, 2017, except for the impaired receivables, the majority of the remaining balances of receivables are due from a related-party distribution partner in the PRC.

The following table sets forth the number of turnover days for our trade and notes receivables for the periods indicated:

|  | For the year ended December 31, |      |      | For the six months ended |
|--|---------------------------------|------|------|--------------------------|
|  | 2014                            | 2015 | 2016 | June 30, 2017            |
| Trade and notes receivables turnover days <sup>(1)</sup> ..... | N.A. <sup>(2)</sup>             | 46   | 52   | 53                       |

*Note:*

- (1) Trade and notes receivables turnover days for a period equals the average of the opening and closing trade and notes receivables divided by revenue for the same period and multiplied by 365 days for a full-year period or the period generating the revenue.
- (2) Our audited financial information for the year ended December 31, 2013 is not available, as this is outside of the Track Record Period.

Our trade and notes receivables turnover days remained stable at around 50 days for the year ended December 31, 2015 and 2016 and the six months ended June 30, 2017. Our contracts with our distribution partners typically set forth a credit period from one to two months. As of June 30, 2017, only insignificant amounts of these balances were past due.

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### *Prepayments, Deposits and Other Assets*

Prepayments, deposits and other assets included in our non-current and current assets primarily comprise amounts due from related parties.

The following table sets forth our prepayments, deposits and other assets included in non-current assets and current assets as of the dates indicated:

|   | As of December 31,    |                |                | As of June 30, |
|---|-----------------------|----------------|----------------|----------------|
|   | 2014                  | 2015           | 2016           | 2017           |
|   | (in thousands of RMB) |                |                |                |
| <b>Included in non-current assets</b>   |                       |                |                |                |
| Deposits and prepayments .....  | 5,858                 | 7,916          | 17,140         | 19,795         |
| Deferred compensation cost .....  | 5,600                 | 11,206         | 3,200          | 2,600          |
| <b>Included in current assets</b>   |                       |                |                |                |
| Amounts due from related parties .....  | 10                    | 308,405        | 534,875        | 217,408        |
| Prepayments to vendors and online<br>writers .....                              | 29,056                | 46,798         | 53,841         | 57,616         |
| Royalty advances .....  | 9,074                 | 8,301          | 7,762          | 7,982          |
| Rental and other deposits .....   | 5,701                 | 11,430         | 10,639         | 7,271          |
| Interest receivables .....  | 593                   | 1,296          | 1,953          | 6,885          |
| Prepaid composition costs .....   | 2,600                 | 437            | 418            | 487            |
| Staff advances .....  | 6,799                 | 3,502          | 1,455          | 3,403          |
| Deferred license fees and related costs ...                                     | 16,503                | 2,553          | 731            | 2,972          |
| Capital contribution receivable due from<br>a non-controlling shareholder ..... | —                     | 9,000          | —              | —              |
| Others .....  | 6,224                 | 8,897          | 10,255         | 18,681         |
| <b>Total prepayments, deposits and other<br/>assets .....</b>                   | <b>88,018</b>         | <b>419,741</b> | <b>642,269</b> | <b>345,100</b> |

Our prepayments, deposits and other assets decreased by 46.3% from RMB642.3 million as of December 31, 2016 to RMB345.1 million as of June 30, 2017, primarily due to the decrease in amounts due from the deposits first placed in 2015 with a related party named Oriental Power Holdings Limited for a wealth management arrangement. Our prepayments, deposits and other assets increased by 53.0% from RMB419.7 million as of December 31, 2015 to RMB642.3 million as of December 31, 2016, primarily due to the loan issued in 2016 to a related party named Tencent Asset Management.

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## FINANCIAL INFORMATION

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Our prepayments, deposits and other assets increased significantly by 376.9% from RMB88.0 million as of December 31, 2014 to RMB419.7 million as of December 31, 2015, primarily due to the increase in the amounts due from the deposits first placed in 2015 with a related party named Oriental Power Holdings Limited for a wealth management arrangement. According to our agreement with Oriental Power Holdings Limited, the interest rate of these deposits was 3.27% per annum. As at December 31, 2015 and 2016, the principals were amounting to RMB300.0 million, and the interest receivables were amounting to approximately RMB4.9 million and RMB14.7 million, respectively. The deposit and related interest were collected in June 2017.

### *Short-term Investments*

The short-term investments mainly represent investment in wealth management products issued by banks in the PRC. The Group determined the fair value of these short-term investments based on present value of the net cash flow expected to be generated by these investments and the key assumptions are the expected investment income rates for these investments.

### *Convertible Bonds*

Our convertible bonds comprise convertible bonds of Cloudary assumed in business combination in December 2014 (“Cloudary’s Convertible Bonds”). The Cloudary’s Convertible Bonds was issued on June 4, 2013 to an affiliate of Goldman Sachs, a third party lender. The Cloudary’s Convertible Bonds with nominal amount of US\$55 million is carrying interest rate at 5% per annum payable annually, and has matured on June 4, 2016. We designate the entire hybrid contract of convertible bonds as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of comprehensive income or loss. On April 30, 2015, the Cloudary’s Convertible Bonds was replaced by a zero coupon convertible bonds of the Company with nominal amount of approximately US\$75 million and has matured on June 6, 2016 (“New Convertible Bonds”). We assessed and accounted for the exchange of convertible bonds as a debt extinguishment, given the contracting parties and interest rate of our convertible bonds were substantially amended. On June 6, 2016, the New Convertible Bonds were due and redeemed by us and a gain of approximately RMB92.2 million being the excess of fair value of the New Convertible Bonds at the time of redemption (amounting to approximately RMB585.5 million) over the New Convertible Bonds redemption of approximately RMB493.3 million was recognized.

### *Borrowings*

Our borrowings are normally included under current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings are recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost.

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## FINANCIAL INFORMATION

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The following table sets forth our borrowings included in non-current liabilities and current liabilities as of the dates indicated:

|  | As of December 31,    |                       |                       | As of June 30,        |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2014                  | 2015                  | 2016                  | 2017                  |
|  | (in thousands of RMB) |                       |                       |                       |
| <b>Included in non-current liabilities</b> |                       |                       |                       |                       |
| Bank borrowings .....                      | —                     | 247                   | —                     | 475,000               |
| <b>Included in current liabilities</b>     |                       |                       |                       |                       |
| Bank and other borrowings .....            | <u>200,000</u>        | <u>300,000</u>        | <u>541,622</u>        | <u>240,646</u>        |
| <b>Total borrowings</b> .....              | <u><u>200,000</u></u> | <u><u>300,247</u></u> | <u><u>541,622</u></u> | <u><u>715,646</u></u> |

See the paragraphs headed “— Indebtedness” in this section for more information.

### *Trade Payables*

Trade payables represent outstanding amounts primarily due on our payments to writers, content adaptation partners and Tencent. Our trade payables increased by 88.3% from RMB222.9 million as of December 31, 2015 to RMB419.7 million as of December 31, 2016, and further increased by 24.4% to RMB522.2 million as of June 30, 2017, primarily due to (i) the increase in the payables to our writers and (ii) the increase in the payables to Tencent. Trade payables to our writers increased significantly by 96.5% from RMB157.6 million as of December 31, 2015 to RMB309.7 million as of December 31, 2016, and further increased by 24.5% to RMB385.5 million as of June 30, 2017, primarily due to the significant increase of our overall revenues based on which we share revenues to the writers according to a pre-determined split. Trade payables to our content distribution partners increased by 110.0% from RMB27.3 million as of December 31, 2015 to RMB57.3 million as of December 31, 2016, and further increased by 34.0% to RMB76.8 million as of June 30, 2017, primarily due to the continued growth and significant increase of our online reading revenues from such channels.

Approximately RMB247.3 million, or 47.4%, of our trade payables as of June 30, 2017 had been settled as of August 31, 2017.

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The following table sets forth an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

|                         | As of December 31,    |                |                | As of June 30, |
|-------------------------|-----------------------|----------------|----------------|----------------|
|                         | 2014                  | 2015           | 2016           | 2017           |
|                         | (in thousands of RMB) |                |                |                |
| Up to 3 months .....    | 142,780               | 171,732        | 346,297        | 428,986        |
| 3 to 6 months .....     | 30,690                | 5,853          | 12,606         | 30,267         |
| 6 months to 1 year..... | 6,032                 | 4,200          | 26,168         | 12,064         |
| 1 to 2 years .....      | 18,472                | 17,825         | 8,108          | 22,899         |
| Over 2 years .....      | 27,919                | 23,257         | 26,518         | 28,005         |
| <b>Total</b> .....      | <b>225,893</b>        | <b>222,867</b> | <b>419,697</b> | <b>522,221</b> |

The following table sets forth the number of turnover days for our trade payables for the periods indicated:

|   | For the year ended December 31, |      |      | For the six months ended |
|---|---------------------------------|------|------|--------------------------|
|   | 2014                            | 2015 | 2016 | June 30, 2017            |
| Trade payables turnover days <sup>(1)</sup> ..... | N.A. <sup>(2)</sup>             | 80   | 78   | 89                       |

*Note:*

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by 365 days for a full-year period or the period generating the revenue.
- (2) Our audited financial information for the year ended December 31, 2013 is not available, as this is outside of the Track Record Period.

Our trade payables turnover days remained relatively stable at around 80 days for the years ended December 31, 2015 and 2016 and the six months ended June 30, 2017, which were within the payment terms pursuant to the applicable contracts we entered into with the relevant counterparties.

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## FINANCIAL INFORMATION

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### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

|  | For the year ended December 31, |        |      | For the six months ended<br>June 30, |      |
|--|---------------------------------|--------|------|--------------------------------------|------|
|  | 2014                            | 2015   | 2016 | 2016                                 | 2017 |
|  | (unaudited)                     |        |      |                                      |      |
| Total revenues growth (%) .....                | N/A                             | 244.6  | 59.1 | N/A                                  | 92.5 |
| Gross margin <sup>(1)</sup> (%) .....          | 43.4                            | 36.1   | 41.3 | 40.8                                 | 50.0 |
| Net margin <sup>(2)</sup> (%).....             | (4.5)                           | (22.0) | 1.2  | (0.2)                                | 11.1 |
| Adjusted EBITDA margin <sup>(3)</sup> (%)...   | 7.6                             | 3.2    | 7.2  | 1.3                                  | 18.1 |
| Adjusted operating margin <sup>(4)</sup> (%) . | 4.3                             | (1.8)  | 4.6  | (2.1)                                | 16.7 |
| Adjusted net margin <sup>(5)</sup> (%).....    | (1.6)                           | (5.9)  | 3.2  | (4.5)                                | 15.7 |

*Note:*

- (1) Gross margin equals gross profit divided by revenues for the year and multiplied by 100%.
- (2) Net margin equals net profit/(loss) divided by revenues for the year and multiplied by 100%.
- (3) Adjusted operating margin equals adjusted operating profit/(loss) divided by revenue for the year and multiplied by 100%.
- (4) Adjusted EBITDA margin equals adjusted EBITDA divided by revenue for the year and multiplied by 100%.
- (5) Adjusted net margin equals adjusted net profit/(loss) for the year divided by revenue for the year and multiplied by 100%.

See the paragraphs headed “— Period-to-Period Comparison of Results of Operations — Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2017” , “— Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015” and “— Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2015 Compared to Year Ended December 31, 2014” in this section for a discussion of the factors affecting our results of operations during the respective periods.

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had historically funded our cash requirements principally from capital contribution from shareholders and cash generated from our operations, and borrowings from related parties. We had cash and cash equivalents of RMB830.0 million, RMB331.1 million, RMB404.9 million and RMB1.6 billion as of December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017, respectively.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any plans for material additional external financing.

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The following table sets forth our cash flows for the periods indicated:

|  | For the year ended December 31, |           |           | For the six months<br>ended June 30, |           |
|--|---------------------------------|-----------|-----------|--------------------------------------|-----------|
|  | 2014                            | 2015      | 2016      | 2016                                 | 2017      |
|  | (unaudited)                     |           |           |                                      |           |
|  | (in thousands of RMB)           |           |           |                                      |           |
| Net cash flows generated from/(used in)  |                                 |           |           |                                      |           |
| operating activities .....   | 109,219                         | 198,019   | 185,787   | (46,216)                             | 325,263   |
| Net cash flows used in investing activities ..                                   | (3,862,083)                     | (646,372) | (463,750) | (280,105)                            | (22,939)  |
| Net cash flows provided by/(used in)   |                                 |           |           |                                      |           |
| financing activities .....   | 4,544,274                       | (64,143)  | 360,250   | 360,250                              | 825,701   |
| Net increase/(decrease) in cash and cash<br>equivalents .....                    | 791,410                         | (512,496) | 82,287    | 33,929                               | 1,128,025 |
| Cash and cash equivalents at the beginning<br>of the period .....                | 39,202                          | 830,017   | 331,090   | 331,090                              | 404,915   |
| Cash and cash equivalents of disposal group<br>classified as held for sale ..... | —                               | —         | (9,667)   | —                                    | —         |
| Exchange gains/(losses) on cash and cash<br>equivalents .....                    | (595)                           | 13,569    | 1,205     | 314                                  | (3,027)   |
| Cash and cash equivalents at the end of the<br>period .....                      | 830,017                         | 331,090   | 404,915   | 365,333                              | 1,529,913 |

### *Net Cash Flows Generated by Operating Activities*

Net cash flows generated by operating activities represents cash provided by operations minus income tax paid. Cash provided by operations primarily comprise our loss or profit for the period adjusted by non-cash items and changes in working capital.

Net cash flows generated from operating activities amounted to RMB325.3 million for the six months ended June 30, 2017, representing cash provided by operations of RMB357.2 million minus income tax paid of RMB31.9 million. Cash provided by operations was primarily attributable to our net profit of RMB213.5 million, as adjusted by (i) the add-back of non-cash items, primarily comprising amortization of intangible assets of RMB81.1 million, provision for inventory obsolescence of RMB21.0 million, share-based compensation expenses of RMB52.6 million, and impairment provision for intangible assets of RMB51.2 million, partially offset by gain on disposal of subsidiaries of RMB60.9 million and Share of profit of investments accounted for using equity method of RMB29.9 million, and (ii) changes in working capital, which primarily comprised an increase in trade and notes receivables of RMB54.2 million, and investments in TV drama participation of RMB83.8 million, partially offset by an increase in trade payables of RMB102.4 million and deferred revenue of RMB75.7 million.



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Net cash flows generated from operating activities amounted to RMB185.8 million for the year ended December 31, 2016, representing cash provided by operations of RMB226.1 million minus income tax paid of RMB40.3 million. Cash provided by operations was primarily attributable to our net profit of RMB30.4 million, as adjusted by (i) the add-back of non-cash items, primarily comprising amortization of intangible assets of RMB192.5 million, provision for inventory obsolescence of RMB42 million, share-based compensation expenses of RMB78.0 million, and impairment provision for intangible assets of RMB49.0 million, partially offset by gain on redemption of convertible bonds of RMB92.2 million and fair value gain of investment in redeemable shares of an associate of RMB32.5 million, and (ii) changes in working capital, which primarily comprised an increase in trade and notes receivables of RMB372.1 million, partially offset by an increase in trade payables of RMB199.0 million.

Net cash flows generated from operating activities amounted to RMB198 million for the year ended December 31, 2015, representing cash provided by operations of RMB269.2 million minus income tax paid of RMB71.2 million. Cash provided by operations was primarily attributable to our net loss of RMB354.2 million, as adjusted by (i) the add-back of non-cash items, primarily comprising amortization of intangible assets of RMB221.5 million, share-based compensation expenses of RMB131.8 million, and fair value loss of convertible bonds of RMB84.8 million, partially offset by fair value gain of investment in redeemable shares of an associate of RMB26.8 million, and (ii) changes in working capital, which primarily comprised an increase in inventories of RMB28.7 million, offset by an increase in other payables and accruals of RMB88.2 million and a decrease in trade and notes receivables of RMB38.7 million.

Net cash flows generated from operating activities amounted to RMB109.2 million for the year ended December 31, 2014, representing cash provided by operations of RMB114.9 million minus income tax paid of RMB5.7 million. Cash provided by operations was primarily attributable to our net loss of RMB21.1 million, as adjusted by (i) the add-back of non-cash items, primarily comprising amortization of intangible assets of RMB23.5 million, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB158.9 million, partially offset by an increase in inventories of RMB26.9 million and a decrease in other payables and accruals of RMB56.2 million.

### *Net Cash Flows Used in Investing Activities*

For the six months ended June 30, 2017, our net cash used in investing activities was RMB22.9 million, which was mainly attributable to payment for short-term investments of RMB2.7 billion, placement of term deposits with initial term of over three months of RMB475.3 million, acquisition of investments in associates and a joint venture of RMB103.4 million and purchase of intangible assets of RMB58.0 million partially offset by proceeds from disposals of short-term investments of RMB3.0 billion receipt from maturity of deposits placed with a related party of RMB300.0 million and interest received of RMB26.3 million.

For the year ended December 31, 2016, our net cash used in investing activities was RMB463.8 million, which was mainly attributable to payment for short-term investment of RMB2.1 billion, deposits placed with related parties of RMB213.2 million, and purchase of intangible assets of RMB113.2 million, partially offset by proceeds from disposals of short-term investments of RMB2.0 billion.

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For the year ended December 31, 2015, our net cash used in investing activities was RMB646.4 million, which was mainly attributable to payment for short-term investment of RMB1.7 billion, deposits placed with related parties of RMB295.8 million, and purchase of intangible assets of RMB133.2 million, partially offsets by proceeds from disposals of short-term investments of RMB1.5 billion.

For the year ended December 31, 2014, our net cash used in investing activities was RMB3.9 billion, which was mainly attributable to payment for business combination, net of cash acquired, of RMB3.8 billion associated with our acquisitions of Cloudary and Chuangshi.

### *Net Cash Flows Provided by/(Used in) Financing Activities*

For the six months ended June 30, 2017, our net cash flows provided by financing activities was RMB825.7 million, which primarily comprised proceeds from issuance of ordinary shares of RMB687.8 million and proceeds from borrowings of RMB475.0 million, partially offset by payments of borrowings of RMB300.0 million.

For the year ended December 31, 2016, our net cash flows provided by financing activities was RMB360.3 million, which primarily comprised proceeds from issuance of ordinary shares of RMB652.4 million and proceeds from borrowings of RMB241.6 million, partially offset by redemption of convertible bonds of RMB493.3 million.

For the year ended December 31, 2015, our net cash used in financing activities was RMB64.1 million, which primarily comprised repayment of borrowing of RMB200.0 million, repayment of non-trade payable due to a non-controlling shareholder of RMB57.3 million and settlement related to the acquisition of non-controlling interest of RMB82.8 million, partially off-set by the proceeds from borrowings of RMB300.0 million.

For the year ended December 31, 2014, our net cash flows provided by financing activities was RMB4.5 billion, which primarily comprised proceeds from issuance of ordinary shares of RMB4.5 billion.

### **INDEBTEDNESS**

As of August 31, 2017, we had a total of RMB675.0 million in indebtedness, which included (i) a short-term borrowing balance of RMB200.0 million borrowed from our related party, Tencent Technology (Shenzhen) Company Limited (“**Tencent Shenzhen**”), which was unsecured, with an interest rate at 4.35% per annum, due in March 2018, and (ii) a long-term borrowing balance of RMB475.0 million borrowed from Bank of Communications with a floating interest rate of Bank of Communications’ loan prime rate minus 2.5% per annum, due in March 2019. The borrowing was under the loan facility agreement that Shanghai Yuwen and Bank of Communications Shanghai Branch entered into, up to RMB500.0 million, which is guaranteed by Bank of Communications Tokyo Branch. As of August 31, 2017, the Group’s unutilized banking facility under aforementioned loan facility agreement was RMB25.0 million. As of the Latest Practicable Date, the loan borrowed from Tencent Shenzhen had been fully repaid by us and there was no outstanding loan from the Retained Tencent Group.

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As of June 30, 2017, we had a total of RMB750.6 million in indebtedness, which included (i) a short-term borrowing balance of RMB200.0 million borrowed from our related party, Tencent Shenzhen, which was unsecured, with an interest rate at 4.35% per annum, due in March 2018, (ii) a short-term borrowing balance of US\$6.0 million (approximately RMB40.6 million) borrowed from our related party, Oriental Power, which was unsecured, with an interest rate at 4.0% per annum, due in August 2017, (iii) a long-term borrowing balance of RMB475.0 million borrowed from Bank of Communications with a floating interest rate of Bank of Communications' loan prime rate minus 2.5% per annum, due in March 2019. The borrowing was under the loan facility agreement Shanghai Yuewen and Bank of Communications Shanghai Branch entered into, up to RMB500,000,000, which is guaranteed by Bank of Communications Tokyo Branch. As of June 30, 2017, the Group's unutilized banking facility under aforementioned loan facility agreement was RMB25.0 million and (iv) interest-free non-trade payable of RMB35.0 million due to our related party, Tencent Shenzhen, which has been repaid by the Group in August 2017.

As of December 31, 2016, we had a total of RMB576.6 million in indebtedness, which were unsecured and included (i) short-term borrowings balance from our related party, Tencent Shenzhen, through China Merchant Bank of RMB200.0 million and RMB300.0 million, with an interest rate at 4.35% per annum repayable in March 2017 and extended to March 2018, and with an interest rate at 4.8% per annum repayable in June 2017, respectively, (ii) a short-term borrowing balance of US\$6.0 million (approximately RMB41.6 million) borrowed from our related party, Oriental Power Holdings Limited (“**Oriental Power**”), with an interest rate at 4.0% per annum, due in June 2017, and (iii) interest-free non-trade payable of RMB35.0 million due to our related party, Tencent Shenzhen.

As of December 31, 2015, we had a total of RMB335.2 million in indebtedness, which were unsecured and included (i) a short-term borrowing balance of RMB300.0 million borrowed from our related party, Tencent Shenzhen, through China Merchant Bank with an interest rate at 4.8% per annum repayable in June 2016 and extended to June 2017, (ii) a long-term borrowing balance of RMB0.2 million borrowed from Standard Chartered Bank, with an interest rate at 3.4% per annum, which was repaid in January 2016, and (iii) interest-free non-trade payable of RMB35.0 million due to our related party, Tencent Shenzhen.

As of December 31, 2014, we had a total of RMB235.0 million of in indebtedness, which were unsecured and included (i) short-term borrowing of RMB200.0 million from Shanghai Shanda Networking Development Co., Ltd., with an interest rate at 5.04%~5.9% per annum, which was repaid in June 2015, and (ii) interest-free non-trade payable of RMB35.0 million due to our related party, Tencent Shenzhen.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with each of the lenders mentioned above. Our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of August 31, 2017.

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Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at close of business on August 31, 2017.

### CONTINGENT LIABILITIES

As of December 31, 2014, 2015 and 2016, June 30, 2017 and August 31, 2017, we did not have any significant contingent liabilities.

### CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures and long-term investments for the periods indicated:

|  | For the year ended December 31, |                |                | For the six months ended<br>June 30, |                |
|--|---------------------------------|----------------|----------------|--------------------------------------|----------------|
|  | 2014                            | 2015           | 2016           | 2016                                 | 2017           |
|  | (unaudited)                     |                |                |                                      |                |
|  | (in thousands of RMB)           |                |                |                                      |                |
| Purchase of property, plant and<br>equipment ..... | 3,538                           | 22,464         | 19,861         | 3,196                                | 10,031         |
| Purchase of intangible assets.....                 | 52,171                          | 133,164        | 113,231        | 62,981                               | 58,040         |
| Long-term investments <sup>(1)</sup> .....         | —                               | 10,472         | 63,300         | 57,500                               | 103,400        |
| <b>Total</b> .....                                 | <b>55,709</b>                   | <b>166,100</b> | <b>196,392</b> | <b>123,677</b>                       | <b>171,471</b> |

Note:

(1) Long-term investments during our Track Record Period represent investments accounted for using the equity method.

Our historical capital expenditures primarily included expenditures for intangible assets resulting from business acquisitions and for property, plant and equipment such as computer equipment, leasehold improvement, *etc.* We funded our capital expenditure requirements and long-term investments during the Track Record Period mainly from capital contribution from shareholders and cash generated from our operating activities. Our capital expenditures and long-term investments amounted to RMB55.7 million, RMB166.1 million, RMB196.4 million, RMB123.7 million and RMB171.5 million for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively. The increase of RMB110.4 million in our total capital expenditures and long-term investments from the years ended December 31, 2014 to December 31, 2015 was primarily due to our addition of property, plant and equipment and copyrights for future business development. The increase of RMB30.3 million in our total capital expenditures and long-term investments from the years ended December 31, 2015 to December 31, 2016 was primarily

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due to our additional investments in associates solely in the form of ordinary shares. The increase of RMB47.8 million in our total capital expenditures and long-term investments from the six months ended June 30, 2016 to the six months ended June 30, 2017 was primarily due to our additional investments in associates and a joint venture solely in the form of ordinary shares.

As of June 30, 2017, we had (i) approximately RMB83.6 million of long-term investment in a joint venture operating online literature communities in China; (ii) RMB13.4 million of long-term investments in two companies engaged in the development of intellectual property and technologies primarily relating to upstream literary content; (iii) RMB34.3 million of long-term investments in two companies and a joint venture engaged in film production and related services; (iv) RMB7.7 million of long-term investments in two companies engaged in the development of technologies relating to online games and animation; (v) RMB36.7 million of long-term investments in an investment fund and a company focusing on culture industry; and (vi) RMB94.0 million of long-term investments in two companies engaged in animation production and related service. Each of our long-term investments was made in accordance with our general strategy of investing or acquiring businesses that are complementary to our business. See the paragraph headed “— Major Factors Affecting Our Results of Operations — Strategic Acquisitions and Investments” in this section for details of our investment strategy. We do not consider any one of these investments material to us as a whole.

We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the net proceeds received from the Global Offering. See the section headed “Future Plans and Use of Proceeds” in this document for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

See the section headed “Business — Risk Management and Internal Control — Investment Risk Management and Treasury Policy” in this document for a discussion of our investment policy and investment risk management.

### CONTRACTUAL OBLIGATIONS

#### Operating Lease Commitments

Our commitments primarily relate to the leases of servers and office buildings under non-cancellable operating lease agreements. The lease terms under those agreements are between one and five years, and a majority of them are renewable at the end of the applicable lease period at the then market rate.

Our future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|  | As of December 31,    |        |         | As of June 30, |
|--|-----------------------|--------|---------|----------------|
|  | 2014                  | 2015   | 2016    | 2017           |
|  | (in thousands of RMB) |        |         |                |
| Not later than one year .....                              | 21,747                | 26,479 | 45,399  | 39,648         |
| Later than one year and not later than<br>five years ..... | 10,851                | 18,076 | 58,434  | 59,605         |
| Total .....  | 32,598                | 44,555 | 103,833 | 99,253         |

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### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

### MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we have entered into a number of related party transactions pursuant to which (i) we licensed copyrights and provided advertising services to certain of our related parties, which were recognized as revenues, (ii) we received services from certain of our related parties, which were recognized as cost of revenues or selling and marketing expenses, (iii) we received customer recharge collected on our behalf by a related party, (iv) we extended loans to our related parties and (v) we borrowed loans from our related parties. For more details about our related party transactions, see Note 42 to the Accountant's Report in Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

### FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including foreign exchange risk, fair value interest rate risk, credit risk and liquidity risk.

#### Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of our operating entities. Our functional currency is US\$, whereas the functional currency of our subsidiaries operating in the PRC is RMB. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible.

We operate mainly in the PRC with most of the transactions settled in RMB. Our management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of ours that are denominated in currencies other than the functional currency of our operating entities.

#### Fair Value Interest Rate Risk

Our income and operating cash flows are substantially independent from changes in market interest rates, and we do not have significant interest-bearing assets except for other investments—short-term investment, term deposits, cash and cash equivalents and loans receivable from our related parties. See Notes 23, 27 and 28 to the Accountant's Report in Appendix I to this document for more details.

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Our exposure to changes in interest rates is also attributable to our borrowings, details of which have been disclosed in Note 31 to the Accountant's Report in Appendix I to this document. Borrowings carried at floating rates expose us to cash flow interest rate risk, whereas those carried at fixed rates expose us to fair value interest rate risk.

### **Credit Risk**

We are exposed to credit risk primarily in relation to our cash and deposits (including term deposits) placed with banks and financial institutions, short-term investment, as well as trade and notes receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For online reading business, trade receivables at the end of each reporting period were mainly due from certain telecommunication operators and content distribution partners (including Tencent's platforms) in mainland China. If the strategic relationships with telecommunication operators and content distribution partners are terminated or scaled-back, if the telecommunication operators and content distribution partners alter the co-operative arrangements, or if they experience financial difficulties in paying us, our corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, we maintain frequent communication with telecommunication operators and content distribution partners to ensure effective credit control. In view of the history of our co-operation with the platforms and third-party payment vendors and the sound collection history of receivables due from them, our Directors believe that the credit risk inherent in our outstanding trade receivable balances due from telecommunication operators and content distribution partners (except for the impaired receivables) is low. For trade receivables of the physical books business, which are mainly from agencies, the credit quality of each agent is assessed, which takes into account its financial position, past experience and other factors.

For other receivables, we make periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our outstanding balance of other receivables.

### **Liquidity Risk**

We aim to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of our underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents. During the Track Record Period, we have primarily funded our cash requirements principally from capital contribution from shareholders and cash generated from our operations.



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For the analysis of our non-derivative financial liabilities into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date, see Note 3.1 to the Accountant's Report in Appendix I to this document.

Our Directors have reviewed our profitability, working capital and capital expenditure requirements and determined that we have no significant liquidity risk.

### **FUTURE DIVIDENDS**

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

### **WORKING CAPITAL CONFIRMATION**

Taking into account the financial resources available to us including our cash and cash equivalents on hand, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

### **DISTRIBUTABLE RESERVES**

As of June 30, 2017, the Company did not have any distributable reserves.

### **LISTING EXPENSE**

Based on the mid-point Offer Price of HK\$51.50, the total estimated listing related expenses payable by us in relation to the offering of the New Shares under the Global Offering, together with the fees and expenses for professional advisors and service providers engaged for the Global Offering, is approximately RMB214.7 million (or approximately RMB66.6 million after excluding underwriting commission, SFC transaction levy and Stock Exchange trading fee of approximately RMB148.1 million). No such expenses were recognised and charged to our consolidated statements of comprehensive income for the years ended December 31, 2014, 2015 and 2016. In the six months ended June 30, 2017, the listing expenses incurred by us were approximately RMB34.6 million, of which RMB29.8 million was charged to our consolidated statement of comprehensive income for the six months ended June 30, 2017. We estimate that the total listing expenses for the year 2017 in the

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amount of RMB57.5 million will be charged to our consolidated statement of comprehensive income for the year ending December 31, 2017. The balance of approximately RMB157.2 million, which includes underwriting commission, is expected to be capitalized. These listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering and the underwriting commission and incentive fee payable to the Underwriters in connection with the offering of New Shares under the Global Offering.

The listing expenses, including the underwriting commission, SFC transaction levy and Stock Exchange trading fees, relating to the sale of the Sale Shares payable by the Selling Shareholders, namely Laoshe and TB Partners, are expected to be RMB8.4 million and RMB8.4 million, respectively. The listing expenses, including the underwriting commission, incentive fee (if any), SFC transaction levy and Stock Exchange trading fees payable by the Over-allotment Option Grantors, namely, Laoshe and TB Partners, relating to the sale of additional Shares pursuant to the exercise of the Over-allotment Option are expected to be RMB19.9 million and RMB4.8 million, respectively, if the Over-allotment Option is fully exercised. Both calculations are based on the mid-point Offer Price of HK\$51.50.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to our equity holders as of June 30, 2017 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Global Offering been completed as at June 30, 2017 or at any future dates.

|   | <b>Audited<br/>consolidated<br/>net tangible<br/>assets of ours<br/>attributable to<br/>the equity<br/>holders of the<br/>Company as at<br/>June 30,<br/>2017 <sup>(1)</sup></b> | <b>Estimated net<br/>proceeds from<br/>the Global<br/>Offering <sup>(2)</sup></b> | <b>Unaudited pro<br/>forma adjusted<br/>net tangible<br/>assets of ours<br/>attributable to<br/>the equity<br/>holders of the<br/>Company</b> | <b>Unaudited pro forma adjusted<br/>net tangible assets per<br/>Share <sup>(3)(4)</sup></b> |             |
|---|--|---|---|---|-------------|
|   | <b>RMB'000</b>   | <b>RMB'000</b>  | <b>RMB'000</b>  | <b>RMB</b>  | <b>HK\$</b> |
| Based on an Offer Price of<br>HK\$55.00 per Share ..... | 1,511,531  | 6,114,121   | 7,625,652   | 8.73  | 10.35       |
| Based on an Offer Price of<br>HK\$48.00 per Share ..... | 1,511,531  | 5,331,276   | 6,842,807   | 7.83  | 9.29        |

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### Notes

- (1) The audited consolidated net tangible assets of ours attributable to our equity holders as at June 30, 2017 is extracted from the Accountant's Report set out in Appendix I, which is based on the audited consolidated net assets of ours attributable to our equity holders as at June 30, 2017 of approximately RMB6,099,070,000 with an adjustment for the intangible assets attributable to our equity holders as at June 30, 2017 of approximately RMB4,587,539,000.
- (2) The estimated net proceeds to be received by the Company from the Global Offering are based on the indicative Offer Price of HK\$48.00 and HK\$55.00 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expense of approximately RMB29,791,000 which has been accounted for prior to June 30, 2017) payable by the Company and takes no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 873,429,148 shares were in issue assuming that the Global Offering has been completed on June 30, 2017 (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing) but takes no account of 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1853. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

- (4) However, assuming that the 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions are vested upon the Global Offering, such that 906,417,239 Shares are in issue immediately following the completion of the Global Offering (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing), the unaudited pro forma adjusted net tangible assets per Share would have been RMB7.55 (equivalent to HK\$8.95) (based on the Offer Price of HK\$48.00 per Share) and RMB8.41 (equivalent to HK\$9.97) (based on the Offer Price of HK\$55.00 per Share), respectively. This does not take into account any Shares that may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1853. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

- (5) No adjustment has been made to reflect any trading result or other transactions of ours entered into subsequent to June 30, 2017.

### NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2017, being the end date of the periods reported on in the Accountant's Report in Appendix I to this document, and there is no event since June 30, 2017 that would materially affect the information as set out in the Accountant's Report in Appendix I to this document.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the section headed “Business — Our Strategies” in this document for a detailed description of our future plans.

### USE OF PROCEEDS

The aggregate net proceeds that we expect to receive from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$51.50 per Share, being the mid-point of the indicative range of the Offer Price of HK\$48.00 to HK\$55.00 per Share) will be approximately HK\$6,747.5 million. We will bear the underwriting commissions, SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of new Shares together with any applicable fees relating to the Global Offering. The Over-allotment Option Grantors will be responsible for the underwriting commissions attributable to any Shares that it will sell upon any exercise of the Over-allotment Option, together with Stock Exchange trading fees, SFC transaction levy and any applicable fees in respect of the Sale Shares. We intend to use the net proceeds we will receive from this offering for the following purposes:

- approximately HK\$2,024.3 million (equivalent to approximately RMB1,707.9 million, representing 30% of the net proceeds) is expected to be used to expand our online reading business, by identifying, nurturing and promoting promising writers, expanding the breadth of our literary genres, especially our coverage of long-tail and niche literature genre, increasing the number of titles available on our platform, including the number of exclusive titles and debut offerings, strengthening our editorial capabilities, enhancing the user experience on our mobile apps through improved functionalities and services, enhancing our customized and precise literary content recommendation capability, making our content library easier to search, and broadening our mobile Internet distribution channels, our sales and marketing activities to expand our user base and increase our user engagement, especially through targeted and precise marketing and promotional campaigns driven by our analysis of reader behavioral data;
- approximately HK\$2,024.3 million (equivalent to approximately RMB1,707.9 million, representing 30% of the net proceeds) is expected to be used to fund our potential investments in, acquisitions of and strategic alliance with companies that can expand our content creation, sourcing, distribution and adaptation capabilities and strengthen our technological capabilities. For detailed discussion of our future acquisition strategy, see the section headed “Business — Our Strategies” in this document. As of the Latest Practicable Date, we had not identified any potential acquisition targets;
- approximately HK\$2,024.3 million (equivalent to approximately RMB1,707.9 million, representing 30% of the net proceeds) is expected to be used to expand our involvement in the development of derivative entertainment products adapted from our online literary titles by actively participating in setting the production, release and promotional timetables of content adaptations, such as films, TV and web series, online games and animations,

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## FUTURE PLANS AND USE OF PROCEEDS

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investing in adapted TV series and web series, strengthening our cooperation with internet video platforms, screenplay studios and production companies, boosting our animation production capability, as well as the franchising of our most popular literary titles into serial entertainment products across all major media formats; and

- the remaining amount of approximately HK\$674.6 million (equivalent to approximately RMB569.2 million, representing no more than 10% of the net proceeds) is expected to be used for working capital and general corporate purposes.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$464.0 million, respectively. Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. We will not receive net proceeds if the Over-allotment Option is exercised by the Joint Global Coordinators.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited  
Merrill Lynch Far East Limited  
Credit Suisse (Hong Kong) Limited  
J.P. Morgan Securities (Asia Pacific) Limited  
China International Capital Corporation Hong Kong Securities Limited  
China Securities (International) Corporate Finance Company Limited  
China Renaissance Securities (Hong Kong) Limited  
China Merchants Securities (HK) Co., Limited  
CMB International Capital Limited  
BOCI Asia Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Futu Securities International (Hong Kong) Limited

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters.

The Global Offering comprises the Hong Kong Public Offering of initially 15,137,200 Hong Kong Offer Shares and the International Offering of initially 136,234,600 International Offer Shares (including 15,409,090 Sale Shares and 7,568,600 Reserved Shares under the Preferential Offering), subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 15,137,200 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this document and the Application Forms at the Offer Price.

Subject to (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be offered pursuant to the Global Offering as mentioned herein and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering

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## UNDERWRITING

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on and subject to the terms and conditions set out in this document, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

For applicants applying under the Hong Kong Public Offering, this document and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters.

### *Grounds for Termination*

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall in their sole discretion be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement, with immediate effect, if prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
  - (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent Authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Singapore, the Cayman Islands or any other jurisdiction relevant to any member of the Group (“**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”); or
  - (ii) any change or development involving a prospective change, or any event or series of events resulting in or likely to result in any change or development, or prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including conditions in stock and bond markets, money and foreign exchange markets, the inter-bank markets, credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Relevant Jurisdictions; or
  - (iii) any event or series of events, in the nature of *force majeure* (including any acts of government, declaration of a national or international emergency, calamity, crisis, epidemic, pandemic, outbreak of infectious disease (including Severe Acute Respiratory Syndrome (SARS), H1N1, H5N1 and such related/mutated forms or accident or interruption or delay in transportation), economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), outbreak or escalation of hostilities (whether or not war is declared) or acts of God) in or affecting any Relevant Jurisdiction; or



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## UNDERWRITING

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- (iv) the imposition of any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (v) the imposition of any general moratorium on commercial banking activities in or affecting any Relevant Jurisdiction, or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdiction; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, the United Nation or the European Union (or any member thereof), the PRC or any other jurisdiction relevant to any member of the Group; or
- (vii) a change or development involving a prospective change in Taxation or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
- (viii) any adverse change and prospective adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group; or
- (ix) a Director being found guilty of an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the resignation of the chairman or chief executive officer of the Company; or
- (xi) an authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director and any member of the Group; or
- (xii) save as disclosed or contemplated in the section headed “Business — Legal Proceedings and Compliance” in this prospectus, (i) any litigation, arbitration, proceeding or claim being threatened or instigated against the Company or any member of the Group or (ii) any change or new development involving any of the matters in the section headed “Business — Legal Proceedings and Compliance” in this prospectus; or
- (xiii) a contravention by any member of the Group of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or applicable Laws (as defined under the Hong Kong Underwriting Agreement); or

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## UNDERWRITING

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- (xiv) a prohibition on the Company for whatever reason from offering, allotting or selling the Shares pursuant to the terms of the Global Offering; or
- (xv) save as disclosed in this prospectus, any contravention by any member of the Group or any Director of any applicable Laws; or
- (xvi) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xvii) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus or the post hearing information packs of the Company (“**PHIPs**”) (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC without the prior consent of the Joint Sponsors; or
- (xviii) any order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (xix) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity, which is legally enforceable,

which, individually or in the aggregate, in the opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (A) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, performance or prospects of the Group as a whole; or
- (B) has or will have or is likely to have a material adverse effect on the completion of the Global Offering; or
- (C) makes or will make it or may make it inadvisable, inexpedient or impracticable for any material part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or

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## UNDERWRITING

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implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or

- (D) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
- (i) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the representations, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable; or
  - (ii) that any statement contained in any of the Offering Documents (as defined under the Hong Kong Underwriting Agreement) and/or in any notices, announcements, PHIPs, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or inaccurate in any material respect or misleading, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of the Offering Documents and/or any notices, announcements, PHIPs, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
  - (iii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Offering Documents, PHIPs and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
  - (iv) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
  - (v) any event, act or omission which gives or is likely to give rise to any liability of the Indemnifying Party (as defined under the Hong Kong Underwriting Agreement) pursuant to the Hong Kong Underwriting Agreement; or

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## UNDERWRITING

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- (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or any member of the Group, including any litigation or claim of any third party of material importance being threatened or instigated against the Company or any member of the Group; or
  
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering or that may be issued pursuant to RSU Plan is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
  
- (viii) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the withdrawal of consent by any Joint Sponsor and the Joint Global Coordinator without a reason) prior to the issue of this prospectus; or
  
- (ix) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

### *Undertakings to the Stock Exchange pursuant to the Listing Rules*

#### *(A) Undertakings by the Company*

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into Shares (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering (including the exercise of the Over-allotment Option) or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

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## UNDERWRITING

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(B) *Undertakings by the Controlling Shareholders of the Company*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders of the Company has undertaken to the Company and to the Stock Exchange, except for any lending of Shares pursuant to the Stock Borrowing Agreement, and save as permitted under the Listing Rules, that it will not:

- (i) in the period commencing on the date by reference to which disclosure of their respective holding of Shares is made in this document and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown in this document to be the beneficial owner(s); and
- (ii) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or the group of the controlling shareholders of the Company would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company,

in each case, save as permitted under the Listing Rules.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders of the Company has further undertaken to the Company and to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its holding of Shares is made in this document and ending on the date which is 12 months from the Listing Date, it will:

- (i) when it pledges or charges any Shares beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of such Shares so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as it has been informed of the above matters (if any) by the Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible.

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## UNDERWRITING

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### *Undertakings by the Company pursuant to the Hong Kong Underwriting Agreement*

The Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering and the issue of any Shares pursuant to the Company's RSU Plan, it will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time during the period after the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date (the "**First Six-month Period**"):

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any of the transactions specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares, in cash or otherwise provided that the foregoing restrictions shall not apply to the issue of Shares by the Company pursuant to the Global Offering (whether or not the issue of Shares or such other securities of the Company will be completed within the First Six-Month Period).

In the event of, at any time during the period of six months immediately following the expiry of the First Six-month Period (the "**Second Six-month Period**"), the Company enters into any of the transactions specified in any transaction specified in paragraph (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

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## UNDERWRITING

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### *Indemnity*

The Company has agreed to indemnify each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer as a result of the Company's breach of the provisions of the Hong Kong Underwriting Agreement.

### **The International Offering**

In connection with the International Offering, it is expected that the Company, the Selling Shareholders and the Over-allotment Option Grantors will enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to subscribe for or purchase or procure subscribers or purchasers for their respective proportions of the International Offer Shares which are not taken up under the International Offering. See the section headed "Structure of the Global Offering — The International Offering".

### **Over-allotment Option**

The Over-allotment Option Grantors are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30 day period from the last day for lodging of applications under the Hong Kong Public Offering, which will end on Thursday, November 30, 2017, to require the Over-allotment Option Grantors to sell up to an aggregate of 22,705,600 additional Offer Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed. See the section headed "Structure of the Global Offering — The International Offering — Over-allotment Option".

### **Commissions and Expenses**

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 2.5% of the Offer Price of all the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission and other fees, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering to the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, the Company may, in its sole and absolute discretion, pay any one or all of the Hong Kong Underwriters an additional incentive fee of up to 0.5% of the Offer Price for each Hong Kong Offer Share.



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## UNDERWRITING

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Based on an Offer Price of HK\$51.50 per Share, being the mid-point of the Offer Price range, the fees and commissions, the Stock Exchange trading fee and the SFC transaction levy payable by the Company in connection with the offering of the New Shares under the Hong Kong Public Offering and the International Offering, together with the legal and other professional fees, printing and other expenses payable by us in relation to the Global Offering, are estimated to amount to approximately RMB214.7 million in aggregate. Such fees, commissions, the Stock Exchange trading fee, the SFC transaction levy and the fees and expenses of professional advisors and service providers engaged in relation to the Global Offering are payable and borne by us.

The Selling Shareholders and the Over-allotment Option Grantors shall bear, and be responsible for the payment of, all the underwriting commission, incentive fee (if any), the SFC transaction levy and the Stock Exchange trading fee payable by the Selling Shareholders or the Over-allotment Option Grantors (as applicable) in connection with the sale of the Sale Shares and the sale of additional Shares pursuant to the exercise of the Over-allotment Option (if any), respectively. Such listing expenses payable by each of the Selling Shareholders, namely Laoshe and TB Partners, in connection with the sale of the Sale Shares (based on an Offer Price of HK\$51.50 per Share, being the mid-point of the Offer Price range) are estimated to be RMB8.4 million and RMB8.4 million, respectively, and such listing expenses payable by each of the Over-allotment Option Grantors, namely Laoshe and TB Partners, in connection with the sale of additional Shares pursuant to the exercise of the Over-allotment Option in full (based on an Offer Price of HK\$51.50 per Share, being the mid-point of the Offer Price range) are estimated to be RMB19.9 million and RMB4.8 million, respectively.

An amount of approximately HK\$7.0 million is payable by the Company as sponsor fee to the Joint Sponsors.

### **Over-allotment and Stabilization**

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering”.

### **ACTIVITIES BY SYNDICATE MEMBERS**

The Underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their

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## UNDERWRITING

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customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering". Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering.

151,371,800 Offer Shares will be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of 15,137,200 New Shares (subject to reallocation) in Hong Kong as described in the paragraph headed “— The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of initially 136,234,600 Shares (including 15,409,090 Sale Shares and 7,568,600 Reserved Shares under the Preferential Offering) (subject to reallocation and the Over-allotment Option) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S, as described in the paragraph headed “— The International Offering” below. Of the 136,234,600 Shares initially being offered under the International Offering, 7,568,600 Shares will be offered under the Preferential Offering to Qualifying Tencent Shareholders as an Assured Entitlement as described in the paragraph headed “— The Preferential Offering” below.

Investors may either:

- (a) apply for Offer Shares under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for Offer Shares under the International Offering,

but may not do both (except that Qualifying Tencent Shareholders who are eligible to apply for the Reserved Shares in the Preferential Offering may also either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering, if eligible; or (ii) indicate an interest for International Offer Shares under the International Offering, if qualified to do so).

The Offer Shares will represent approximately 16.7% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 19.2% of the total Shares in issue immediately following the completion of the Global Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

The Company is initially offering 15,137,200 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares

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## STRUCTURE OF THE GLOBAL OFFERING

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initially available under the Global Offering. The number of Shares offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 1.7% of the total Shares in issue immediately following the completion of the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— Conditions of the Global Offering” below.

### **Allocation**

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools, pool A (being an aggregate of 7,568,600 Shares) and pool B (being an aggregate of 7,568,600 Shares). The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for the Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 7,568,600 Hong Kong Offer Shares being approximately 50% of the 15,137,200 Hong Kong Offer Shares initially available under the Hong Kong Public Offering are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Reallocation and clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-applications in the Hong Kong Public Offering, the Joint Global Coordinators will apply an alternative clawback mechanism following the closing of the application lists on the following basis:

- (a) 15,137,200 Offer Shares available in the Hong Kong Public Offering, representing approximately 10.0% of the Offer Shares initially available under the Global Offering;
- (b) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 30 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 22,706,000 Offer Shares, representing approximately 15.0% of the Offer Shares initially available under the Global Offering;
- (c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 30 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 37,843,200 Offer Shares, representing approximately 25.0% of the Offer Shares initially available under the Global Offering; and
- (d) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering such that the total number of Offer Shares initially available under the Hong Kong Public Offering will be 49,952,800 Offer Shares, representing approximately 33.0% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

The Reserved Shares which are offered under the Preferential Offering to Qualifying Tencent Shareholders out of the Offer Shares being offered under the International Offering will not be subject to reallocation between the Hong Kong Public Offering and the International Offering.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering (except in respect of the Reserved Shares applied for under the Preferential Offering). Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering (except in respect of the Reserved Shares applied for under the Preferential Offering).

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price of HK\$55.00 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— Pricing of the Global Offering” below, is less than the Maximum Offer Price of HK\$55.00 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares”.

References in this document to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering and the Preferential Offering.

### **THE PREFERENTIAL OFFERING**

#### **Basis of the Assured Entitlement**

In order to enable Tencent Shareholders to participate in the Global Offering on a preferential basis as to allocation only, subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares on the Main Board and such approval not having been withdrawn and the Global Offering becoming unconditional, Qualifying Tencent Shareholders are being invited to apply for an aggregate of 7,568,600 Reserved Shares in the Preferential Offering, representing approximately 5.6% and 5.0% of the Offer Shares initially available under the International

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## STRUCTURE OF THE GLOBAL OFFERING

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Offering and the Global Offering, respectively, as an Assured Entitlement. For the avoidance of doubt, the Reserved Shares are being offered out of the International Offer Shares under the International Offering and are not subject to reallocation as described in the paragraph headed “— The Hong Kong Public Offering — Reallocation and clawback” above.

**The basis of the Assured Entitlement is one Reserved Share for every integral multiple of 1,256 Tencent Shares held by Qualifying Tencent Shareholders on the Record Date.**

Qualifying Tencent Shareholders should note that their Assured Entitlement to the Reserved Shares may not represent a full board lot of 200 Shares. Further, the Reserved Shares allocated to the Qualifying Tencent Shareholders will be rounded down to the closest whole number if required. No odd lot matching services will be provided and dealings in odd lots of the Shares may be at a price below the prevailing market price for full board lots.

**The Assured Entitlements of Qualifying Tencent Shareholders to Reserved Shares are not transferrable. There will be no trading in nil-paid entitlements on the Stock Exchange.**

Qualifying Tencent Shareholders who hold less than 1,256 Tencent Shares on the Record Date and therefore will not have an Assured Entitlement to the Reserved Shares will still be entitled to participate in the Preferential Offering by applying for excess Reserved Shares as further described below.

### **Basis of Allocation for Applications for Reserved Shares**

Qualifying Tencent Shareholders may apply for a number of Reserved Shares which is greater than, less than or equal to their Assured Entitlement or may apply only for excess Reserved Shares under the Preferential Offering.

A valid application for a number of Reserved Shares which is less than or equal to a Qualifying Tencent Shareholder’s Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the **BLUE** Application Forms or the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) and assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying Tencent Shareholder applies for a number of Reserved Shares which is greater than the Qualifying Tencent Shareholder’s Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Where a Qualifying Tencent Shareholder applies for excess Reserved Shares only under the Preferential Offering, such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.



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## STRUCTURE OF THE GLOBAL OFFERING

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Qualifying Tencent Shareholders (other than HKSCC Nominees) who intend to apply for less than their Assured Entitlement using the **BLUE** Application Forms for Assured Entitlement or who intend to apply for excess Reserved Shares using the **BLUE** Application Forms for excess Reserved Shares, should apply for a number which is one of the numbers set out in the table of numbers and payments in the **BLUE** Application Form and make a payment of the corresponding amount. If you intend to apply for a number of Assured Entitlement or excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement and excess Reserved Shares, you **MUST** apply by using **Blue Form eIPO** only. If you are a Qualifying Tencent Shareholder and wish to apply for excess Reserved Shares in addition to your Assured Entitlement, you should complete and sign the **BLUE** Application Form for excess Reserved Shares and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess Reserved Shares applied for or apply for through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk).

To the extent that excess applications for the Reserved Shares are:

- (a) less than the Reserved Shares not taken up by the Qualifying Tencent Shareholders (the “**Available Reserved Shares**”), the Available Reserved Shares will first be allocated to satisfy such excess applications for the Reserved Shares in full and thereafter will be allocated, at the discretion of the Joint Global Coordinators, to the International Offering;
- (b) equal to the Available Reserved Shares, the Available Reserved Shares will be allocated to satisfy such excess applications for the Reserved Shares in full; or
- (c) more than the Available Reserved Shares, the Available Reserved Shares will be allocated on an allocation basis which will be consistent with the allocation basis commonly used in the case of over-subscriptions in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications of excess Reserved Shares.

If there are any Reserved Shares remaining after satisfying the excess applications, such Reserved Shares will be reallocated, at the discretion of the Joint Global Coordinators, to the International Offering. No preference will be given to any excess applications made to top up odd lot holdings to whole lot holdings of Shares.

The Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering.

Beneficial Tencent Shareholders (not being Non-Qualifying Tencent Shareholders) whose Tencent Shares are held by a nominee company should note that the Company will regard the nominee company as a single Tencent Shareholder according to the register of members of Tencent. Accordingly, such Beneficial Tencent Shareholders whose Tencent Shares are held by a nominee company should note that the arrangement under paragraph (c) above will not apply to them individually. Any Beneficial Tencent Shareholders (not being Non-Qualifying Tencent Shareholders) whose Tencent Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to applications for Reserved Shares under the Preferential Offering. Any such person is advised to consider whether it wishes to arrange for the registration of the relevant Tencent Shares in the name of the beneficial owner prior to the Record Date.

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## STRUCTURE OF THE GLOBAL OFFERING

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Directors (and/or any of their close associates) who are Qualifying Tencent Shareholders and intend to apply for the Reserved Shares under the Preferential Offering will not participate in any decision of the Company in relation to the allocation basis for the Preferential Offering. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 10.03 of the Listing Rules and a consent under Paragraph 5(2) of Appendix 6 to the Listing Rules for the inclusion of the Directors and/or their close associates who are Qualifying Tencent Shareholders in the Preferential Offering, subject to certain conditions. Further details of such waiver are set forth in the section headed “Waivers from Compliance with the Listing Rules”.

### **Applications by Qualifying Tencent Shareholders for Hong Kong Offer Shares**

In addition to any application for Reserved Shares made either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form, Qualifying Tencent Shareholders will be entitled to make one application for Hong Kong Offer Shares on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS or by applying through the **White Form eIPO** service. Qualifying Tencent Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service under the Hong Kong Public Offering.

### **Qualifying Tencent Shareholders and Non-Qualifying Tencent Shareholders**

Only Tencent Shareholders whose names appeared on the register of members of Tencent on the Record Date and who are not Non-Qualifying Tencent Shareholders are entitled to subscribe for the Reserved Shares under the Preferential Offering.

The directors of Tencent and the Company have made enquiries regarding the legal restrictions under the applicable securities legislation of the Specified Territories and the requirements of the relevant regulatory bodies or stock exchanges with respect to the offer of the Reserved Shares to the Tencent Shareholders in the Specified Territories. Having considered the circumstances, the directors of Tencent and the Company have formed the view that it is necessary or expedient to restrict the ability of Tencent Shareholders in the Specified Territories to take up their Assured Entitlement to the Reserved Shares under the Preferential Offering due to the time and costs involved in the registration or filing of this document and/or approval required by the relevant authorities in those territories and/or additional steps which the Company and the Tencent Shareholders would need to take to comply with the local legal and/or other requirements which would need to be satisfied in order to comply with the relevant local or regulatory requirements in those territories.

Accordingly, for the purposes of the Preferential Offering, the Non-Qualifying Tencent Shareholders are:

- (a) Tencent Shareholders whose names appeared in the register of members of Tencent on the Record Date and whose addresses as shown in such register are in any of the Specified Territories; and

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) Tencent Shareholders or Beneficial Tencent Shareholders on the Record Date who are otherwise known by Tencent to be resident in any of the Specified Territories.

Notwithstanding any other provision in this document or the **BLUE** Application Forms or the terms and conditions of the **Blue Form eIPO** service, the Company reserves the right to permit any Tencent Shareholder to take up his/her/its Assured Entitlement to the Reserved Shares if the Company, in its absolute discretion, is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions described above.

### **Beneficial Tencent Shareholders who hold Tencent Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect**

The Company has been advised by the Company's PRC Legal Advisor that pursuant to Article 23 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland-Hong Kong Stock Markets Connect Programme (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》), CSDCC does not provide services relating to the subscription of newly issued shares to southbound investors. Accordingly, Beneficial Tencent Shareholders who hold Tencent Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect cannot participate in the Preferential Offering and will not be able to take up their respective Assured Entitlement to the Reserved Shares under the Preferential Offering through the trading mechanism of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

### **Distribution of this Document and the BLUE Application Forms**

**BLUE** Application Forms have been despatched to all Qualifying Tencent Shareholders. In addition, a printed copy of this document will be dispatched to all Qualifying Tencent Shareholders to their address as shown in the register of members of Tencent on the Record Date. For further details, see the section headed "How to Apply for Hong Kong Offer Shares and Reserved Shares".

Distribution of this document and/or the **BLUE** Application Form(s) into any jurisdiction other than Hong Kong may be restricted by law. Persons who come into possession this document and/or the **BLUE** Application Form(s) (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restriction. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction.

Receipt of this document and/or the **BLUE** Application Form(s) does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or the **BLUE** Application Form(s) must be treated as sent for information only and should not be copied or redistributed.

### **Application Procedures**

The procedures for application under and the terms and conditions of the Preferential Offering are set out in the section headed "How to Apply for Hong Kong Offer Shares and Reserved Shares" and on the **BLUE** Application Forms.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE INTERNATIONAL OFFERING

#### Number of Offer Shares initially offered

Subject to reallocation as described above, the International Offering will consist of an offering of initially 136,234,600 Shares (including 15,409,090 Sale Shares and 7,568,600 Reserved Shares under the Preferential Offering), representing approximately 90% of the total number of Offer Shares initially available under the Global Offering and approximately 15.0% of the total Shares in issue immediately after the completion of the Global Offering. For the avoidance of doubt, the Reserved Shares being offered pursuant to the Preferential Offering are being offered out of the International Offer Shares.

#### Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States only in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered the Offer Shares under the International Offering (except in respect of the Reserved Shares applied for under the Preferential Offering), and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

#### Reallocation and clawback

The total number of Offer Shares to be issued or sold pursuant to the International Offering (save for the Reserved Shares under the Preferential Offering) may change as a result of, amongst others, the clawback arrangement described in the paragraph headed “— The Hong Kong Public Offering — Reallocation and clawback” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Over-allotment Option

In connection with the Global Offering, the Over-allotment Option Grantors are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantors to sell up to 22,705,600 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.5% of the total Shares in issue immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares for a limited period after the Listing Date at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action, which if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it, (b) may be discontinued at any time, and (c) is required to be brought to an end within 30 days after

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## STRUCTURE OF THE GLOBAL OFFERING

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the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold and transferred pursuant to the exercise of the Over-allotment Option, namely, 22,705,600 Offer Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares to be sold and transferred pursuant to the exercise of the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (e) selling or agreeing to sell any Shares to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Prospective applications for investors in the Offer Shares should note that:

- (a) as a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares;
- (b) the size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain;
- (c) liquidation of any such long position by the Stabilizing Manager and selling in the open market may lead to a decline in the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilising period, which begins on the Listing Date, and is expected to expire on

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## STRUCTURE OF THE GLOBAL OFFERING

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Thursday, November 30, 2017, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and their market price, could fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilise, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market;

- (e) any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at a price at or below the Offer Price and therefore at or below the price paid by applicants for, or investors in, the Offer Shares.

An announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

### **Stock Borrowing Arrangement**

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 22,705,600 Offer Shares (being the maximum number of Shares which may be sold and transferred by the Over-allotment Option Grantors upon exercise of the Over-allotment Option) from THL A13 pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager and THL A13 on or around Tuesday, October 31, 2017, or acquire Shares from other sources, including exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price.

If the Stock Borrowing Agreement with THL A13 is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with, being that (a) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, (b) the maximum number of Shares to be borrowed from THL A13 pursuant to the Stock Borrowing Agreement is the maximum number of Shares that may be sold and transferred by the Over-allotment Option Grantors upon full exercise of the Over-allotment Option, (c) the same number of Shares so borrowed must be returned to THL A13 or its nominees, as the case may be, on or before the third business day following the earlier of (i) the last day for exercising the Over-allotment Option, and (ii) the day on which the Over-allotment Option is exercised in full, (d) the stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements, and (e) no payments will be made to THL A13 by the Stabilizing Manager in relation to the stock borrowing arrangement.



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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investor indications of interest in acquiring International Offer Shares (except for the Reserved Shares offered pursuant to the Preferential Offering) in the International Offering. Prospective professional and institutional investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, October 31, 2017 and in any event on or before Tuesday, November 7, 2017, by agreement among the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$55.00 per Share and is expected to be not less than HK\$48.00 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative price range stated in this document.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, cause to be published in The Standard (in English) and Sing Tao Daily (in Chinese) and to be posted on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of the Company ([www.yuewen.com](http://www.yuewen.com)) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Selling Shareholders and the Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this document, and any other financial information which may change as a result of such reduction.

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## STRUCTURE OF THE GLOBAL OFFERING

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In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon with the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this document.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. The Preferential Offering will not be subject to reallocation between the Hong Kong Public Offering and the International Offering.

The Offer Price for Offer Shares under the Global Offering, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares and the results of allocation in the Hong Kong Public Offering and the Preferential Offering are expected to be announced on Tuesday, November 7, 2017 through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares — E. Publication of Results”.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and such approval not having been withdrawn;
- (ii) the Offer Price having been duly agreed among the Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

In each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this document.

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## STRUCTURE OF THE GLOBAL OFFERING

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If, for any reason, the Offer Price is not agreed among the Company, the Selling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Tuesday, November 7, 2017, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering (including the Preferential Offering) is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering and the Preferential Offering will be published by the Company in The Standard (in English) and Sing Tao Daily (in Chinese) and on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.yuewen.com](http://www.yuewen.com)) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, November 7, 2017 but will only become valid certificates of title at 8:00 a.m. on Wednesday, November 8, 2017 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Grounds for Termination” has not been exercised at or before that time.

### DEALING IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, November 8, 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, November 8, 2017. The Shares will be traded in board lots of 200 Shares each and the stock code of the Shares will be 772.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### A. APPLICATIONS FOR HONG KONG OFFER SHARES

#### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares (except in respect of Reserved Shares applied for pursuant to the Preferential Offering).

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

#### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S), and are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Joint Global Coordinators, as the Company's agent, may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- you are a Director or chief executive of the Company and/or any of the Company's subsidiaries (other than a Director and/or his close associates who are Qualifying Tencent Shareholders who may apply for Reserved Shares pursuant to the Preferential Offering);
- you are a close associate of any of the above persons;
- you are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; or
- you have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participated in the International Offering (except in respect of Reserved Shares applied for pursuant to the Preferential Offering).

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, October 26, 2017 until 12:00 noon on Tuesday, October 31, 2017 from:

- (i) any of the following addresses of the Hong Kong Underwriters:

**Morgan Stanley Asia Limited**

46/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

**Merrill Lynch Far East Limited**

55/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong

**Credit Suisse (Hong Kong) Limited**

Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

**J.P. Morgan Securities (Asia Pacific) Limited**

28/F, Chater House, 8 Connaught Road Central, Central, Hong Kong

**China International Capital Corporation Hong Kong Securities Limited**

29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

**China Securities (International) Corporate Finance Company Limited**

18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

**China Renaissance Securities (Hong Kong) Limited**

Unit 8107-08, Level 81, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

**China Merchants Securities (HK) Co., Limited**

48/F One Exchange Square, Central, Hong Kong

**CMB International Capital Limited**

45/F, Champion Tower, 3 Garden Road, Central, Hong Kong

**BOCI Asia Limited**

26/F., Bank of China Tower, 1 Garden Road, Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**

1 Queen's Road Central, Hong Kong

**Futu Securities International (Hong Kong) Limited**

11/F, Bangkok Bank Building, 18 Bonham Strand West, Sheung Wan, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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(ii) or any of the following branches of the receiving bank of the Hong Kong Public Offering:

### Bank of China (Hong Kong) Limited

|                              | Branch Name                                   | Address   |
|------------------------------|---|---|
| <b>Hong Kong Island ...</b>  | Bank of China Tower Branch                    | 3/F, 1 Garden Road  |
|                              | Connaught Road Central Branch                 | 13-14 Connaught Road Central  |
|                              | Sheung Wan Branch                             | Shop 1-4, G/F, Tung Hip Commercial Building, 244-248 Des Voeux Road Central |
|                              | Causeway Bay Branch                           | 505 Hennessy Road, Causeway Bay, Hong Kong                                  |
|                              | King's Road Branch                            | 131-133 King's Road, North Point  |
| <b>Kowloon .....</b>         | Shanghai Street (Mong Kok) Branch             | 611-617 Shanghai Street, Mong Kok   |
|                              | Tsim Sha Tsui Branch                          | 24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon                                |
|                              | 194 Cheung Sha Wan Road Branch                | 194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon                          |
|                              | Wong Tai Sin Branch                           | Shop G13, Wong Tai Sin Plaza, Wong Tai Sin                                  |
|                              | Kwun Tong Plaza Branch                        | G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong                             |
|                              | East Point City Branch                        | Shop 101, East Point City, Tseung Kwan O                                    |
| <b>New Territories .....</b> | Kwai Chung Plaza Branch                       | A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung                |
|                              | Yuen Long Branch                              | 102-108 Castle Peak Road, Yuen Long   |
|                              | Shatin Branch                                 | Shop 20, Level 1, Lucky Plaza, 1-15 Wang Pok Street, Sha Tin                |
|                              | Sheung Shui Branch Securities Services Centre | 136 San Fung Avenue, Sheung Shui  |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, October 26, 2017 until 12:00 noon on Tuesday, October 31, 2017 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CHINA LITERATURE PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, October 26, 2017 9:00 a.m. to 5:00 p.m.
- Friday, October 27, 2017 9:00 a.m. to 5:00 p.m.
- Monday, October 30, 2017 9:00 a.m. to 5:00 p.m.
- Tuesday, October 31, 2017 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, October 31, 2017, the last application day or such later time as described in the paragraph headed "— D. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully; otherwise, your application maybe rejected.

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have relied only on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- (vi) agree that none of the Company, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering (except in respect of Reserved Shares applied for under the Preferential Offering);
- (viii) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instruction and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that except for an application made by a Qualifying Tencent Shareholder under the Preferential Offering, this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Forms**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in the paragraph headed “— 2. Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, October 26, 2017 until 11:30 a.m. on Tuesday, October 31, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, October 31, 2017, the last day for applications, or such later time under the paragraph headed “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

### **No Multiple Applications**

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form**

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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**eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### **Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “CHINA LITERATURE LIMITED” **White Form eIPO** application submitted via the website [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

### **Hong Kong Securities Clearing Company Limited**

Customer Service Centre  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering (except in respect of Reserved Shares applied for under the Preferential Offering);
  - (if the electronic application instruction are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- authorise the Company to place HKSCC Nominees name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company or the Relevant Persons is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose to the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the results of the Hong Kong Public Offering;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Thursday, October 26, 2017 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Friday, October 27, 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Monday, October 30, 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, October 31, 2017 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, October 26, 2017 until 12:00 noon on Tuesday, October 31, 2017 (24 hours daily, except on Saturday, October 28, 2017 and on the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, October 31, 2017, the last day for applications or such later time as described in the paragraph headed “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic applications. The Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, October 31, 2017, the last day for applications, or such later time as described in the paragraph headed “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

If you are a Qualifying Tencent Shareholder applying for Reserved Shares under the Preferential Offering either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form, you may also make one application for Hong Kong Offer Shares either on a

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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**WHITE** or **YELLOW** Application Form or electronically through CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or submit an application through the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). However, in respect of any application for Hong Kong Offer Shares using the above methods, you will not enjoy the preferential treatment accorded to you under the Preferential Offering as described in the section headed “Structure of the Global Offering — The Preferential Offering” in this prospectus.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### **B. APPLICATIONS FOR RESERVED SHARES**

#### **1. WHO CAN APPLY**

Only Tencent Shareholders whose names appeared on the register of members of Tencent on the Record Date and who are not Non-Qualifying Tencent Shareholders are entitled to subscribe for the Reserved Shares under the Preferential Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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The directors of Tencent and the Company have made enquiries regarding the legal restrictions under the applicable securities legislation of the Specified Territories and the requirements of the relevant regulatory bodies or stock exchanges with respect to the offer of the Reserved Shares to the Tencent Shareholders in the Specified Territories. Having considered the circumstances, the directors of Tencent and the Company have formed the view that it is necessary or expedient to restrict the ability of Tencent Shareholders in the Specified Territories to take up their Assured Entitlement to the Reserved Shares under the Preferential Offering due to the time and costs involved in the registration or filing of this prospectus and/or approval required by the relevant authorities in those territories and/or additional steps which the Company and the Tencent Shareholders would need to take to comply with the local legal and/or other requirements which would need to be satisfied in order to comply with the relevant local or regulatory requirements in those territories.

Accordingly, for the purposes of the Preferential Offering, the Non-Qualifying Tencent Shareholders are:

- (a) Tencent Shareholders whose names appeared in the register of members of Tencent on the Record Date and whose addresses as shown in such register are in any of the Specified Territories; and
- (b) Tencent Shareholders or Beneficial Tencent Shareholders on the Record Date who are otherwise known by Tencent to be resident in any of the Specified Territories.

Notwithstanding any other provision in this prospectus or the **BLUE** Application Forms or the terms and conditions of the **Blue Form eIPO** service, the Company reserves the right to permit any Tencent Shareholder to take up his/her/its Assured Entitlement to the Reserved Shares if the Company, in its absolute discretion, is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions described above.

With respect to the Specified Territories, Tencent has sent a letter to CCASS Participants (other than CCASS Investor Participants) notifying them that in light of applicable laws and regulations of the Specified Territories, to the extent they hold any Tencent Shares on behalf of the Non-Qualifying Tencent Shareholders, they are excluded from participating in the Preferential Offering.

Qualifying Tencent Shareholders are entitled to apply on the basis of an Assured Entitlement of one Reserved Share for every integral multiple of 1,256 Tencent Shares held by them on the Record Date.

Qualifying Tencent Shareholders who hold less than 1,256 Tencent Shares on the Record Date will not have an Assured Entitlement to the Reserved Shares, but they will still be entitled to participate in the Preferential Offering by applying for excess Reserved Shares.

If the applicant is a firm, the application must be in the individual members' names, but not in the name of the firm. If the applicant is a body corporate, the **BLUE** Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with the corporation's chop.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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If an application is made by a duly authorised person under a valid power of attorney, the Company and the Joint Global Coordinators, as the Company's agents, may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney's authority. The Company and the Joint Global Coordinators, as the Company's agents, will have full discretion to reject or accept any application, in full or in part, without giving any reason.

You cannot apply for any Reserved Share if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive of the Company and/or any of the Company's subsidiaries (other than a Director and/or his close associates who are Qualifying Tencent Shareholders who may apply for Reserved Shares pursuant to the Preferential Offering);
- a close associate of any of the above persons;
- a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; or
- a Non-Qualifying Tencent Shareholder.

## 2. HOW TO APPLY

An application for Reserved Shares under the Preferential Offering may only be made by Qualifying Tencent Shareholders either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or using **BLUE** Application Forms which have been despatched to Qualifying Tencent Shareholders by the Company.

Qualifying Tencent Shareholders may apply for a number of Reserved Shares which is greater than, less than or equal to their Assured Entitlement or may apply only for excess Reserved Shares under the Preferential Offering.

A valid application for a number of Reserved Shares which is less than or equal to a Qualifying Tencent Shareholder's Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the **BLUE** Application Forms or the **Blue Form eIPO** service and assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying Tencent Shareholder applies for a number of Reserved Shares which is greater than the Qualifying Tencent Shareholder's Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied full, subject as mentioned above, but the excess portion of such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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Where a Qualifying Tencent Shareholder applies for excess Reserved Shares only under the Preferential Offering, such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Qualifying Tencent Shareholders (other than HKSCC Nominees) who intend to apply for less than their Assured Entitlement using the **BLUE** Application Forms for Assured Entitlement or who intend to apply for excess Reserved Shares using the **BLUE** Application Forms for excess Reserved Shares, should apply for a number which is one of the numbers set out in the table of numbers and payments in the **BLUE** Application Form and make a payment of the corresponding amount. If you intend to apply for a number of Assured Entitlement or excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement and excess Reserved Shares, you **MUST** apply by using **Blue Form eIPO** only. If you are a Qualifying Tencent Shareholder and wish to apply for excess Reserved Shares in addition to your Assured Entitlement, you should complete and sign the **BLUE** Application Form for excess Reserved Shares and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess Reserved Shares applied for or apply for through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk).

To the extent that excess applications for the Reserved Shares are:

- (a) less than the Available Reserved Shares, the Available Reserved Shares will first be allocated to satisfy such excess applications for the Reserved Shares in full and thereafter will be allocated, at the discretion of the Joint Global Coordinators, to the International Offering;
- (b) equal to the Available Reserved Shares, the Available Reserved Shares will be allocated to satisfy such excess applications for the Reserved Shares in full; or
- (c) more than the Available Reserved Shares, the Available Reserved Shares will be allocated on an allocation basis which will be consistent with the allocation basis commonly used in the case of over-subscription in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications of excess Reserved Shares. If there are any Reserved Shares remaining after satisfying the excess applications, such Reserved Shares will be reallocated, at the discretion of the Joint Global Coordinators, to the International Offering. No preference will be given to any excess applications made to top up odd lot holdings to whole lot holdings of Shares.

The Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering.

Qualifying Tencent Shareholders who have applied for Reserved Shares under the Preferential Offering, either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form, may also make one application either on a **WHITE** or **YELLOW** Application Form, or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or through the **White Form eIPO** service for the Hong Kong Offer Shares in the Hong Kong Public Offering. However,

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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Qualifying Tencent Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service under the Hong Kong Public Offering.

Persons who held their Tencent Shares on the Record Date in CCASS indirectly through a broker/custodian, and wish to participate in the Preferential Offering, should instruct their broker or custodian to apply for the Reserved Shares on their behalf by no later than the deadline set by HKSCC or HKSCC Nominees. In order to meet the deadline set by HKSCC, such persons should check with their broker/custodian for the timing on the processing of their instructions, and submit their instructions to their broker/custodian as required by them. Persons who held their Tencent Shares on the Record Date in CCASS directly as a CCASS Investor Participant, and wish to participate in the Preferential Offering, should give their instruction to HKSCC via the CCASS Phone System or CCASS Internet System by no later than the deadline set by HKSCC or HKSCC Nominees.

### 3. DISTRIBUTION OF THIS PROSPECTUS AND THE BLUE APPLICATION FORMS

**BLUE** Application Forms have been despatched to all Qualifying Tencent Shareholders to their address recorded on the register of members of Tencent on the Record Date.

In addition, a printed copy of this prospectus will be dispatched to all Qualifying Tencent Shareholders to their address as shown in the register of members of Tencent on the Record Date.

Qualifying Tencent Shareholders may obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving bank and the designated office of the Hong Kong Underwriters as set out in this section. An electronic version of this prospectus (which is identical to the printed prospectus) can be accessed and downloaded from the websites of the Company at [www.yuewen.com](http://www.yuewen.com) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

Qualifying Tencent Shareholders who require a replacement **BLUE** Application Form should contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or on its hotline 2862 8555.

Distribution of this prospectus and/or the **BLUE** Application Forms into any jurisdiction other than Hong Kong may be restricted by law. Persons who come into possession of this prospectus and/or the **BLUE** Application Forms (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, this prospectus should not be distributed, forwarded or transmitted in, into or from any of the Specified Territories with or without the **BLUE** Application Forms, except to Qualifying Tencent Shareholders as specified in this prospectus.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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Receipt of this prospectus and/or the **BLUE** Application Forms does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this prospectus and/or the **BLUE** Application Forms must be treated as sent for information only and should not be copied or redistributed. Persons (including, without limitation, agents, custodians, nominees and trustees) who receive a copy of this prospectus and/or the **BLUE** Application Forms should not, in connection with the Preferential Offering, distribute or send the same in, into or from, any of those jurisdictions. If the **BLUE** Application Form is received by any person in any such territory, or by his/her/its agent or nominee, he/she/it should not apply for any Reserved Shares unless the directors of Tencent and the Company determine that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, agents, custodians, nominees and trustees) who forwards this prospectus and/or the **BLUE** Application Form(s) in, into or from any such territory (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

### 4. APPLYING THROUGH THE BLUE FORM eIPO SERVICE

If you apply for Reserved Shares online through the **Blue Form eIPO** service:

- (a) detailed instructions for application through the **Blue Form eIPO** service are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You should read those instructions carefully. If you do not follow the instructions, your application may be rejected by the **Blue Form eIPO** Service Provider and may not be submitted to the Company;
- (b) you must provide a valid e-mail address; and
- (c) once payment is completed via **electronic application instructions** given by you or for your benefit, an actual application is deemed to have been made. If you submit applications both via the **Blue Form eIPO** service and by using the **BLUE** Application Form, only the application submitted via the **Blue Form eIPO** service will be accepted and the other application will be rejected.

The application for Reserved Shares through the **Blue Form eIPO** service is only a facility provided by the **Blue Form eIPO** Service Provider to Qualifying Tencent Shareholders for application for Reserved Shares. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for application to make your electronic application. The Company, the Relevant Persons and the **Blue Form eIPO** Service Provider take no responsibility for such applications.

### 5. APPLYING BY USING BLUE APPLICATION FORMS

- (a) The **BLUE** Application Form will be rejected by the Company if:
  - the **BLUE** Application Form is not completed in accordance with the instructions as stated therein;

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- the **BLUE** Application Form has not been duly signed (only written signatures are acceptable) (or in the case of a joint application, not all applicants have signed);
- in respect of applicants who are corporate entities, the **BLUE** Application Form has not been duly signed (only written signature is acceptable) by an authorised officer or affixed with a company chop;
- the cheque/banker's cashier order/**BLUE** Application Form is defective;
- the **BLUE** Application Form for either Reserved Shares pursuant to the Assured Entitlement or excess Reserved Shares is not accompanied with a cheque/banker's cashier order or is accompanied by more than one cheque/banker's cashier order for each of the application for Assured Entitlement and excess application for Reserved Shares;
- the account name on the cheque/banker's cashier order is not pre-printed or certified by the issuing bank;
- the cheque/banker's cashier order is not drawn on a Hong Kong dollar bank account in Hong Kong;
- the name of the payee indicated on the cheque/banker's cashier order is not "BANK OF CHINA (HONG KONG) NOMINEES LIMITED—CHINA LITERATURE PREFERENTIAL OFFER";
- the cheque has not been crossed "Account Payee Only";
- the cheque was post-dated;
- the applicant's payment is not made correctly or if the applicant pays by cheque or banker's cashier order the cheque or banker's cashier order is dishonoured on its first presentation;
- the applicant's name/the first applicant's name on the joint application is not the same as the name pre-printed or certified/endorsed by the drawee bank on the cheque/banker's cashier order;
- any alteration(s) to the application details on the **BLUE** Application Form has or have not been authorised by the signature(s) of the applicant(s);
- the Company believes that by accepting the application, the Company would violate the applicable securities or other laws, rules or regulations of the jurisdiction where the **BLUE** Application Form is received or where the applicant's address is located; or
- the Company and the Joint Global Coordinators, and their respective agents or nominees, exercise their discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

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- (b) If you are applying by using the **BLUE** Application Form for Assured Entitlement, you may apply for a number of Reserved Shares pursuant to your Assured Entitlement that is equal to or less than the number stated in Box B. If you intend to apply for a number of Reserved Shares that is less than your Assured Entitlement, you **MUST** apply for a number which is one of the numbers set out in the table in the **BLUE** Application Form and make a payment of the corresponding amount (other than HKSCC Nominees). If you intend to apply for a number of Assured Entitlement which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement, you **MUST** apply by using **Blue Form eIPO** only. You need to complete and sign the **BLUE** Application Form for Assured Entitlement and submit one cheque (or banker's cashier order) for the exact amount of remittance printed in Box B or the corresponding amount payable as set out in the table in the **BLUE** Application Form.
- (c) If you are applying by using the **BLUE** Application Form for excess Reserved Shares, you **MUST** apply for a number which is one of the numbers set out in the table in the **BLUE** Application Form and make a payment of the corresponding amount (other than HKSCC Nominees). If you intend to apply for a number of excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for excess Reserved Shares, you **MUST** apply by using **Blue Form eIPO** only. You need to complete and sign the **BLUE** Application Form for excess Reserved Shares and submit one separate cheque (or banker's cashier order) for the exact amount of remittance.
- (d) If you intend to apply for both Reserved Shares pursuant to your Assured Entitlement and excess Reserved Shares, you must submit both the **BLUE** Application Form for Assured Entitlement and the **BLUE** Application Form for excess Reserved Shares. Each **BLUE** Application Form must be accompanied by a separate cheque (or banker's cashier order) for the exact amount of remittance.

Instead of using the **BLUE** Application Form, you may apply for Reserved Shares through the **Blue Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk).

### 6. WHEN MAY APPLICATIONS BE MADE

(a) **Application through the Blue Form eIPO service**

You may submit your application via the **Blue Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) from 9:00 a.m. on Thursday, October 26, 2017 until 11:30 a.m. on Tuesday, October 31, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, October 31, 2017, the last day for applications, or such later time as described in the paragraph headed “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

If you do not complete payment of the application monies (including any related fees) in time, the **Blue Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### (b) Applications on BLUE Application Form(s)

Your completed **BLUE** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED-CHINA LITERATURE PREFERENTIAL OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above at the following times:

- Thursday, October 26, 2017 9:00 a.m. to 5:00 p.m.
- Friday, October 27, 2017 9:00 a.m. to 5:00 p.m.
- Monday, October 30, 2017 9:00 a.m. to 5:00 p.m.
- Tuesday, October 31, 2017 9:00 a.m. to 12:00 noon

Completed **BLUE** Application Forms, together with payment attached, must be lodged by 12:00 noon on Tuesday, October 31, 2017, the last day for applications, or such later time as described in the paragraph headed "— D. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this section.

### (c) Application Lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, October 31, 2017, the last day for applications, or such later time as described in the paragraph headed "— D. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this section.

## 7. How Many Applications May Be Made

See the paragraph headed "— A. Applications for Hong Kong Offer Shares — 8. How Many Applications Can You Make" in this section for the situations where you may make an application for Hong Kong Offer Shares under the Hong Kong Public Offering in addition to application(s) for Reserved Shares under the Preferential Offering.

## 8. Additional Terms and Conditions and Instructions

You should refer to the **BLUE** Application Form for details of the additional terms and conditions and instructions which apply to applications for Reserved Shares.

## C. HOW MUCH ARE THE HONG KONG OFFER SHARES AND THE RESERVED SHARES

The Maximum Offer Price is HK\$55.00 per Offer Share. You must pay the Maximum Offer Price, brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee 0.005% in full upon application for the Hong Kong Offer Shares or Reserved Shares under the terms set out in the Application Forms. This means that for one board lot of 200 Hong Kong Offer Shares or one board lot of 200 Reserved Shares, you will pay HK\$11,100.85.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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The Application Forms have tables showing the exact amount payable for the number of Offer Shares that may be applied for.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus.

### **D. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS**

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, October 31, 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, October 31, 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### **E. PUBLICATION OF RESULTS**

The Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Preferential Offering and the basis of allocations of the Hong Kong Offer Shares and Reserved Shares on Tuesday, November 7, 2017 in The Standard (in English) and Sing Tao Daily (in Chinese) and on the Company’s website at [www.yuewen.com](http://www.yuewen.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Preferential Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at [www.yuewen.com](http://www.yuewen.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than Tuesday, November 7, 2017;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, November 7, 2017 to 12:00 midnight on Monday, November 13, 2017;
- from the allocation results telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, November 7, 2017 to Friday, November 10, 2017; and
- in the special allocation results booklets which will be available for inspection during opening hours on Tuesday, November 7, 2017 to Thursday, November 9, 2017 at the receiving bank's designated branches referred to above.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares and/or Reserved Shares (as the case may be) if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **F. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES AND/OR RESERVED SHARES**

You should note the following situations in which the Hong Kong Offer Shares and/or Reserved Shares will not be allocated to you:

#### **(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service and/or **Blue Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allocation of Hong Kong Offer Shares and/or Reserved Shares is void:**

The allocation of Hong Kong Offer Shares and/or Reserved Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or are suspected of making multiple applications (other than an application (if any) made either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form in your capacity as a Qualifying Tencent Shareholder);
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares (except in respect for Reserved Shares applied for pursuant to the Preferential Offering);
- your Application Form is not completed in accordance with the stated instructions;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- your **electronic application instructions** through the **White Form eIPO** service and/or **Blue Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 7,568,600 Shares out of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### G. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price of HK\$55.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering as set out in the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, November 7, 2017.

### H. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below) and one Share certificate for all Reserved Shares allocated to you under the Preferential Offering.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE**, **YELLOW** or **BLUE** Application Form(s), subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares and/or Reserved Shares allocated to you (for applicants on **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares and/or Reserved Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the Maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the Maximum Offer Price (including brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, November 7, 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. Wednesday, November 8, 2017, provided that the Global Offering has become unconditional in all respects at or before that time and the right of termination described in the section headed “Underwriting” has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

### Personal Collection

(i) *If you apply using a WHITE or BLUE Application Form*

If you apply for (i) 1,000,000 or more Hong Kong Offer Shares on a **WHITE** Application Form or (ii) 1,000,000 or more Reserved Shares on a **BLUE** Application Form and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) (where applicable) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, November 7, 2017 or such other place or date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must provide a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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If you do not collect your refund cheque(s) and/or Share certificate(s) (where applicable) personally within the time specified for collection, it/they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for (i) less than 1,000,000 Hong Kong Offer Shares on a **WHITE** Application Form or (ii) less than 1,000,000 Reserved Shares on a **BLUE** Application Form, your refund cheque(s) and/or Share certificate(s) (where applicable) will be sent to the address specified in your Application Form on or before Tuesday, November 7, 2017, by ordinary post and at your own risk.

(ii) *If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address specified in the Application Form on or before Tuesday, November 7, 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, November 7, 2017, or in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Hong Kong Offer Shares credited to your designated CCASS Participant stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- If you are applying as a CCASS Investor Participant

The Company expects to publish the results of CCASS Investor Participants applications together with the results of the Hong Kong Public Offering on Tuesday, November 7, 2017 in the manner described in the paragraph headed “— E. Publication of Results” in this section. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Tuesday, November 7, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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(iii) *If you apply through the White Form eIPO service or Blue Form eIPO service*

If you apply for (i) 1,000,000 or more Hong Kong Offer Shares through the **White Form eIPO** service or (ii) 1,000,000 or more Reserved Shares through the **Blue Form eIPO** service, and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, November 7, 2017, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for (i) less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service or (ii) less than 1,000,000 Reserved Shares through the **Blue Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, November 7, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, November 7, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering in the manner specified in the paragraph headed “— E. Publication of Results” in this section on Tuesday, November 7, 2017. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. Tuesday, November 7, 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, November 7, 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, November 7, 2017.

### I. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA LITERATURE LIMITED AND MORGAN STANLEY ASIA LIMITED, MERRILL LYNCH FAR EAST LIMITED AND CREDIT SUISSE (HONG KONG) LIMITED**

***Introduction***

We report on the historical financial information of China Literature Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-159, which comprises the consolidated statements of financial position as at December 31, 2014, 2015 and 2016 and June 30, 2017, the Company's statements of financial position as at December 31, 2014, 2015 and 2016 and June 30, 2017 and the consolidated statements of comprehensive income/(loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-159 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated October 26, 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

***Directors' responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out respectively in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

***Reporting accountant's responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out respectively in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Opinion***

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at December 31, 2014, 2015 and 2016 and June 30, 2017 and the consolidated financial position of the Group as at December 31, 2014, 2015 and 2016 and June 30, 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out respectively in Notes 1.3 and 2.1 to the Historical Financial Information.

***Review of stub period comparative financial information***

We have reviewed the stub period comparative financial information of the Group which comprises consolidated statement of comprehensive loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2016 and other explanatory information ("the Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out respectively in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International



Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation respectively set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, October 26, 2017

## I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB") ("Underlying Financial Statements").

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

|  | Note | Year ended December 31, |             |             | Six months ended June 30, |           |
|--|------|-------------------------|-------------|-------------|---------------------------|-----------|
|  |      | 2014                    | 2015        | 2016        | 2016                      | 2017      |
|  |      | RMB'000                 | RMB'000     | RMB'000     | RMB'000                   | RMB'000   |
|  |      |                         |             |             | (Unaudited)               |           |
| <b>Revenues</b> .....  | 6    | 466,208                 | 1,606,640   | 2,556,866   | 999,585                   | 1,924,198 |
| Cost of revenues .....   | 7    | (263,965)               | (1,026,106) | (1,502,019) | (591,416)                 | (962,004) |
| <b>Gross profit</b> .....  |      | 202,243                 | 580,534     | 1,054,847   | 408,169                   | 962,194   |
| Selling and marketing expenses .....                                   | 7    | (127,207)               | (539,617)   | (734,176)   | (351,704)                 | (467,399) |
| General and administrative expenses .....                              | 7    | (70,928)                | (355,540)   | (421,264)   | (192,372)                 | (323,500) |
| Other gains/(losses), net ....   | 9    | (129)                   | 6,863       | 133,916     | 140,576                   | 50,674    |
| <b>Operating profit/(loss)</b> .....                                   |      | 3,979                   | (307,760)   | 33,323      | 4,669                     | 221,969   |
| Finance costs .....  | 10   | (172)                   | (16,881)    | (27,092)    | (12,403)                  | (20,438)  |
| Finance income .....   | 11   | 309                     | 1,654       | 3,939       | 2,047                     | 12,245    |
| Share of profit of investments accounted for using equity method ..... | 17   | —                       | 5,845       | 28,148      | 10,551                    | 29,915    |
| <b>Profit/(loss) before income tax</b> .....                           |      | 4,116                   | (317,142)   | 38,318      | 4,864                     | 243,691   |
| Income tax expense .....   | 12   | (25,246)                | (37,017)    | (7,958)     | (7,245)                   | (30,202)  |
| <b>Profit/(loss) for the year/period</b> .....                         |      | (21,130)                | (354,159)   | 30,360      | (2,381)                   | 213,489   |

|  | Note | Year ended December 31, |                  |               | Six months ended June 30, |                |
|--|------|-------------------------|------------------|---------------|---------------------------|----------------|
|  |      | 2014                    | 2015             | 2016          | 2016                      | 2017           |
|  |      | RMB'000                 | RMB'000          | RMB'000       | RMB'000                   | RMB'000        |
| <b>Other comprehensive income/(loss):</b>                              |      |                         |                  |               |                           |                |
| <i>Items that may be subsequently reclassified to profit or loss</i>   |      |                         |                  |               |                           |                |
| Currency translation differences .....                                 |      | (595)                   | (9,571)          | 27,229        | 5,545                     | (21,835)       |
| <b>Total comprehensive income/(loss) for the year/period .....</b>     |      | <u>(21,725)</u>         | <u>(363,730)</u> | <u>57,589</u> | <u>3,164</u>              | <u>191,654</u> |
| <b>Profit/(loss) attributable to:</b>                                  |      |                         |                  |               |                           |                |
| - Equity holders of the Company .....                                  |      | (21,130)                | (347,584)        | 36,683        | (106)                     | 212,020        |
| - Non-controlling interests .....                                      |      | —                       | (6,575)          | (6,323)       | (2,275)                   | 1,469          |
|  |      | <u>(21,130)</u>         | <u>(354,159)</u> | <u>30,360</u> | <u>(2,381)</u>            | <u>213,489</u> |
| <b>Total comprehensive income/(loss) attributable to:</b>              |      |                         |                  |               |                           |                |
| - Equity holders of the Company .....                                  |      | (21,725)                | (357,155)        | 63,912        | 5,439                     | 190,185        |
| - Non-controlling interests .....                                      |      | —                       | (6,575)          | (6,323)       | (2,275)                   | 1,469          |
|  |      | <u>(21,725)</u>         | <u>(363,730)</u> | <u>57,589</u> | <u>3,164</u>              | <u>191,654</u> |
| <b>Earnings/(loss) per share</b><br>(expressed in RMB per share) ..... |      |                         |                  |               |                           |                |
| - Basic earnings/(loss) per share .....                                | 13   | <u>(0.07)</u>           | <u>(0.52)</u>    | <u>0.05</u>   | <u>(0.00)</u>             | <u>0.29</u>    |
| - Diluted earnings/(loss) per share .....                              |      | <u>(0.07)</u>           | <u>(0.52)</u>    | <u>(0.08)</u> | <u>(0.00)</u>             | <u>0.29</u>    |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

|   | Note  | As at December 31,      |                         |                         | As at                   |
|---|-------|-------------------------|-------------------------|-------------------------|-------------------------|
|   |       | 2014                    | 2015                    | 2016                    | June 30,                |
|   |       | RMB'000                 | RMB'000                 | RMB'000                 | 2017                    |
|   |       |                         |                         | RMB'000                 |                         |
| <b>ASSETS</b>   |       |                         |                         |                         |                         |
| <b>Non-current assets</b>   |       |                         |                         |                         |                         |
| Property, plant and equipment.....  | 15    | 29,077                  | 37,370                  | 45,018                  | 42,981                  |
| Intangible assets .....   | 16    | 4,903,843               | 4,820,629               | 4,681,540               | 4,611,982               |
| Investments accounted for using the equity method.....                    | 17    | 45,676                  | 40,493                  | 127,158                 | 269,692                 |
| Investments in redeemable shares of associates .....                      | 19    | —                       | 74,008                  | 106,508                 | 175,000                 |
| Derivative financial assets .....   | 21    | —                       | 8,400                   | 7,500                   | 12,407                  |
| Deferred income tax assets.....   | 22    | 32,922                  | 25,693                  | 28,429                  | 27,686                  |
| Prepayments, deposits and other assets.....                               | 23    | 11,458                  | 19,122                  | 20,340                  | 22,395                  |
| Term deposits .....   | 28    | —                       | —                       | —                       | 467,434                 |
| Other investments .....   | 27(b) | —                       | —                       | —                       | 83,759                  |
|   |       | <u>5,022,976</u>        | <u>5,025,715</u>        | <u>5,016,493</u>        | <u>5,713,336</u>        |
| <b>Current assets</b>   |       |                         |                         |                         |                         |
| Inventories.....  | 24    | 153,120                 | 147,892                 | 137,920                 | 165,914                 |
| Trade and notes receivables .....   | 26    | 226,341                 | 178,325                 | 549,952                 | 579,709                 |
| Prepayments, deposits and other assets.....                               | 23    | 76,560                  | 400,619                 | 621,929                 | 322,705                 |
| Other investments .....   | 27(a) | 66,486                  | 287,449                 | 368,271                 | 85,818                  |
| Term deposits .....   | 28    | 7,909                   | 10,000                  | —                       | —                       |
| Cash and cash equivalents.....  | 28    | 830,017                 | 331,090                 | 404,915                 | 1,529,913               |
| Assets of disposal group classified as held for sale .....                | 25    | —                       | —                       | 32,225                  | —                       |
|   |       | <u>1,360,433</u>        | <u>1,355,375</u>        | <u>2,115,212</u>        | <u>2,684,059</u>        |
| <b>Total assets .....</b>   |       | <u><b>6,383,409</b></u> | <u><b>6,381,090</b></u> | <u><b>7,131,705</b></u> | <u><b>8,397,395</b></u> |
| <b>EQUITY</b>   |       |                         |                         |                         |                         |
| <b>Capital and reserves attributable to equity holders of the Company</b> |       |                         |                         |                         |                         |
| Share capital.....  | 35    | 409                     | 409                     | 431                     | 452                     |
| Share premium.....  | 35    | 4,658,606               | 4,658,606               | 5,311,029               | 5,998,773               |
| Other reserves.....   | 36    | (38,201)                | 94,563                  | 210,878                 | 243,938                 |
| Accumulated losses.....   |       | (21,663)                | (378,110)               | (356,113)               | (144,093)               |
|   |       | <u>4,599,151</u>        | <u>4,375,468</u>        | <u>5,166,225</u>        | <u>6,099,070</u>        |
| <b>Non-controlling interests .....</b>                                    |       | <u>68,608</u>           | <u>82,491</u>           | <u>42,057</u>           | <u>36,420</u>           |
| <b>Total equity .....</b>   |       | <u><b>4,667,759</b></u> | <u><b>4,457,959</b></u> | <u><b>5,208,282</b></u> | <u><b>6,135,490</b></u> |

|  | Note | As at December 31, |                  |                  | As at            |
|--|------|--------------------|------------------|------------------|------------------|
|  |      |                    |                  |                  | June 30,         |
|  |      | 2014               | 2015             | 2016             | 2017             |
|  |      | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| <b>LIABILITIES</b>   |      |                    |                  |                  |                  |
| <b>Non-current liabilities</b>                                     |      |                    |                  |                  |                  |
| Put option liability .....   | 30   | 65,396             | 69,273           | —                | —                |
| Borrowings .....   | 31   | —                  | 247              | —                | 475,000          |
| Deferred income tax liabilities .....                              | 22   | 247,877            | 245,503          | 220,993          | 204,839          |
| Deferred revenue .....   | 34   | —                  | 46,308           | 43,964           | 42,774           |
| Other non-current liabilities .....                                | 33   | 14,556             | 1,500            | —                | —                |
|  |      | <u>327,829</u>     | <u>362,831</u>   | <u>264,957</u>   | <u>722,613</u>   |
| <b>Current liabilities</b>   |      |                    |                  |                  |                  |
| Put option liability .....   | 30   | —                  | —                | 73,455           | 75,608           |
| Borrowings .....   | 31   | 200,000            | 300,000          | 541,622          | 240,646          |
| Trade payables .....   | 32   | 225,893            | 222,867          | 419,697          | 522,221          |
| Other payables and accruals .....                                  | 33   | 337,056            | 297,389          | 377,007          | 373,313          |
| Deferred revenue .....   | 34   | 98,122             | 146,173          | 232,421          | 303,242          |
| Convertible bonds .....  | 29   | 471,775            | 577,930          | —                | —                |
| Current income tax liabilities .....                               |      | 54,975             | 15,941           | 10,834           | 24,262           |
| Liabilities of disposal group<br>classified as held-for-sale ..... | 25   | —                  | —                | 3,430            | —                |
|  |      | <u>1,387,821</u>   | <u>1,560,300</u> | <u>1,658,466</u> | <u>1,539,292</u> |
| Total liabilities .....  |      | <u>1,715,650</u>   | <u>1,923,131</u> | <u>1,923,423</u> | <u>2,261,905</u> |
| <b>Total equity and liabilities .....</b>                          |      | <u>6,383,409</u>   | <u>6,381,090</u> | <u>7,131,705</u> | <u>8,397,395</u> |

## STATEMENTS OF FINANCIAL POSITION

|   | Note | As at December 31,      |                         |                         | As at                   |
|---|------|-------------------------|-------------------------|-------------------------|-------------------------|
|   |      | 2014                    | 2015                    | 2016                    | June 30,                |
|   |      | RMB'000                 | RMB'000                 | RMB'000                 | 2017                    |
|   |      |                         |                         | RMB'000                 |                         |
| <b>ASSETS</b>   |      |                         |                         |                         |                         |
| <b>Non-current assets</b>   |      |                         |                         |                         |                         |
| Investments in subsidiaries.....  | 18   | <u>4,841,484</u>        | <u>5,274,582</u>        | <u>5,716,547</u>        | <u>5,633,887</u>        |
| <b>Current assets</b>   |      |                         |                         |                         |                         |
| Prepayments, deposits and other assets.....                               | 23   | 5,648                   | 553,155                 | 804,589                 | 1,467,347               |
| Cash and cash equivalents.....  | 28   | <u>72,482</u>           | <u>1,735</u>            | <u>9,371</u>            | <u>9,109</u>            |
|   |      | <u>78,130</u>           | <u>554,890</u>          | <u>813,960</u>          | <u>1,476,456</u>        |
| <b>Total assets</b> .....   |      | <u><u>4,919,614</u></u> | <u><u>5,829,472</u></u> | <u><u>6,530,507</u></u> | <u><u>7,110,343</u></u> |
| <b>EQUITY</b> .....   |      |                         |                         |                         |                         |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                         |                         |                         |                         |
| Share capital.....  | 35   | 409                     | 409                     | 431                     | 452                     |
| Share premium.....  | 35   | 4,901,995               | 4,901,995               | 5,554,418               | 6,242,162               |
| Other reserves.....   | 36   | 495                     | 434,765                 | 922,430                 | 811,329                 |
| Retained earnings/(accumulated losses) .....                              |      | <u>19</u>               | <u>(85,866)</u>         | <u>10,360</u>           | <u>13,726</u>           |
| <b>Total equity</b> .....   |      | <u><u>4,902,918</u></u> | <u><u>5,251,303</u></u> | <u><u>6,487,639</u></u> | <u><u>7,067,669</u></u> |
| <b>LIABILITIES</b>  |      |                         |                         |                         |                         |
| <b>Current liabilities</b>  |      |                         |                         |                         |                         |
| Convertible bonds.....  | 29   | —                       | 577,930                 | —                       | —                       |
| Other payables and accruals.....  | 33   | 16,696                  | 239                     | 1,246                   | 2,028                   |
| Borrowings .....  | 31   | —                       | —                       | 41,622                  | 40,646                  |
| <b>Total liabilities</b> .....  |      | <u><u>16,696</u></u>    | <u><u>578,169</u></u>   | <u><u>42,868</u></u>    | <u><u>42,674</u></u>    |
| <b>Total equity and liabilities</b> .....                                 |      | <u><u>4,919,614</u></u> | <u><u>5,829,472</u></u> | <u><u>6,530,507</u></u> | <u><u>7,110,343</u></u> |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|   | Attributable to equity holders of the Company |               |                |                    |           | Non-controlling interests | Total     |
|---|---|---------------|----------------|--------------------|-----------|---------------------------|-----------|
|   | Share capital                                 | Share premium | Other reserves | Accumulated losses | Sub-total |                           |           |
|   | RMB'000                                       | RMB'000       | RMB'000        | RMB'000            | RMB'000   |                           |           |
| <b>As at January 1, 2014</b> .....  | —   | —             | 1,613          | (16)               | 1,597     | —                         | 1,597     |
| <b>Comprehensive loss</b> .....   |   |               |                |                    |           |                           |           |
| Loss for the year.....  | —   | —             | —              | (21,130)           | (21,130)  | —                         | (21,130)  |
| Other comprehensive loss .....  |   |               |                |                    |           |                           |           |
| - Currency translation differences .....  | —   | —             | (595)          | —                  | (595)     | —                         | (595)     |
| <b>Total comprehensive loss for the year</b> .....  | —   | —             | (595)          | (21,130)           | (21,725)  | —                         | (21,725)  |
| <b>Transaction with owners</b>  |   |               |                |                    |           |                           |           |
| Share-based compensation expenses (Note 37).....  | —   | —             | 6,578          | —                  | 6,578     | —                         | 6,578     |
| Deemed contribution .....   | —   | —             | 18,314         | —                  | 18,314    | —                         | 18,314    |
| Non-controlling interests and put option liability arising from business combinations (Note 39) ..... | —   | —             | (65,396)       | —                  | (65,396)  | 68,608                    | 3,212     |
| Issuance of ordinary shares .....   | 409   | 4,658,606     | —              | —                  | 4,659,015 | —                         | 4,659,015 |
| Profit appropriations to statutory reserves (Note 36).....  | —   | —             | 517            | (517)              | —         | —                         | —         |
| Others.....   | —   | —             | 768            | —                  | 768       | —                         | 768       |
| <b>Total transactions with owners recognized directly in equity for the year</b> .....                | 409   | 4,658,606     | (39,219)       | (517)              | 4,619,279 | 68,608                    | 4,687,887 |
| <b>As at December 31, 2014</b> .....  | 409   | 4,658,606     | (38,201)       | (21,663)           | 4,599,151 | 68,608                    | 4,667,759 |
| <b>As at January 1, 2015</b> .....  | 409   | 4,658,606     | (38,201)       | (21,663)           | 4,599,151 | 68,608                    | 4,667,759 |
| <b>Comprehensive loss</b>   |   |               |                |                    |           |                           |           |
| Loss for the year.....  | —   | —             | —              | (347,584)          | (347,584) | (6,575)                   | (354,159) |
| Other comprehensive loss .....  |   |               |                |                    |           |                           |           |
| - Currency translation differences .....  | —   | —             | (9,571)        | —                  | (9,571)   | —                         | (9,571)   |
| <b>Total comprehensive loss for the year</b> .....  | —   | —             | (9,571)        | (347,584)          | (357,155) | (6,575)                   | (363,730) |
| <b>Transaction with owners</b>  |   |               |                |                    |           |                           |           |
| Share-based compensation expenses (Note 37).....  | —   | —             | 131,786        | —                  | 131,786   | —                         | 131,786   |
| Non-controlling interests arising from business combinations (Note 39) .....                          | —   | —             | —              | —                  | —         | 11,458                    | 11,458    |
| Non-controlling interests arising from incorporation of a subsidiary .....                            | —   | —             | —              | —                  | —         | 9,000                     | 9,000     |
| Profit appropriations to statutory reserves (Note 36).....  | —   | —             | 8,863          | (8,863)            | —         | —                         | —         |
| Others.....   | —   | —             | 1,686          | —                  | 1,686     | —                         | 1,686     |
| <b>Total transactions with owners recognized directly in equity for the year</b> .....                | —   | —             | 142,335        | (8,863)            | 133,472   | 20,458                    | 153,930   |
| <b>As at December 31, 2015</b> .....  | 409   | 4,658,606     | 94,563         | (378,110)          | 4,375,468 | 82,491                    | 4,457,959 |



|  | Attributable to equity holders of the Company |                  |                |                    |                  |               | Non-controlling interests | Total |
|--|---|------------------|----------------|--------------------|------------------|---------------|---------------------------|-------|
|  | Share capital                                 | Share premium    | Other reserves | Accumulated losses | Sub-total        |               |                           |       |
|  | RMB'000                                       | RMB'000          | RMB'000        | RMB'000            | RMB'000          | RMB'000       |                           |       |
| <b>As at January 1, 2016</b> .....   | 409   | 4,658,606        | 94,563         | (378,110)          | 4,375,468        | 82,491        | 4,457,959                 |       |
| <b>Comprehensive income/(loss)</b> .....   |   |                  |                |                    |                  |               |                           |       |
| Profit/(loss) for the year .....   | —   | —                | —              | 36,683             | 36,683           | (6,323)       | 30,360                    |       |
| Other comprehensive income.....  |   |                  |                |                    |                  |               |                           |       |
| - Currency translation differences .....   | —   | —                | 27,229         | —                  | 27,229           | —             | 27,229                    |       |
| <b>Total comprehensive income/(loss) for the year</b> .....                              | —   | —                | 27,229         | 36,683             | 63,912           | (6,323)       | 57,589                    |       |
| <b>Transaction with owners</b>   |   |                  |                |                    |                  |               |                           |       |
| Share-based compensation expenses (Note 37).....   | —   | —                | 78,023         | —                  | 78,023           | —             | 78,023                    |       |
| Issuance of ordinary shares .....  | 22  | 652,423          | —              | —                  | 652,445          | —             | 652,445                   |       |
| Acquisition of non-controlling interests.....  | —   | —                | (7,281)        | —                  | (7,281)          | (33,128)      | (40,409)                  |       |
| Disposal of equity interests in non-wholly owned subsidiaries .....                      | —   | —                | —              | —                  | —                | (983)         | (983)                     |       |
| Profit appropriations to statutory reserves (Note 36).....                               | —   | —                | 14,686         | (14,686)           | —                | —             | —                         |       |
| Others.....  | —   | —                | 3,658          | —                  | 3,658            | —             | 3,658                     |       |
| <b>Total transactions with owners recognized directly in equity for the year</b> .....   | 22  | 652,423          | 89,086         | (14,686)           | 726,845          | (34,111)      | 692,734                   |       |
| <b>As at December 31, 2016</b> .....   | <u>431</u>                                    | <u>5,311,029</u> | <u>210,878</u> | <u>(356,113)</u>   | <u>5,166,225</u> | <u>42,057</u> | <u>5,208,282</u>          |       |
| <b>(Unaudited)</b>   |   |                  |                |                    |                  |               |                           |       |
| <b>As at January 1, 2016</b> .....   | 409   | 4,658,606        | 94,563         | (378,110)          | 4,375,468        | 82,491        | 4,457,959                 |       |
| <b>Comprehensive income/(loss)</b> .....   |   |                  |                |                    |                  |               |                           |       |
| Loss for the period .....  | —   | —                | —              | (106)              | (106)            | (2,275)       | (2,381)                   |       |
| Other comprehensive income .....   |   |                  |                |                    |                  |               |                           |       |
| - Currency translation differences .....   | —   | —                | 5,545          | —                  | 5,545            | —             | 5,545                     |       |
| <b>Total comprehensive income/(loss) for the period</b> .....                            | —   | —                | 5,545          | (106)              | 5,439            | (2,275)       | 3,164                     |       |
| <b>Transaction with owners</b>   |   |                  |                |                    |                  |               |                           |       |
| Share-based compensation expenses (Note 37) .....  | —   | —                | 39,159         | —                  | 39,159           | —             | 39,159                    |       |
| Issuance of ordinary shares .....  | 22  | 652,423          | —              | —                  | 652,445          | —             | 652,445                   |       |
| Acquisition of non-controlling interests .....   | —   | —                | (7,281)        | —                  | (7,281)          | (33,128)      | (40,409)                  |       |
| Others .....   | —   | —                | 730            | —                  | 730              | —             | 730                       |       |
| <b>Total transactions with owners recognized directly in equity for the period</b> ..... | 22  | 652,423          | 32,608         | —                  | 685,053          | (33,128)      | 651,925                   |       |
| <b>As at June 30, 2016</b> .....   | <u>431</u>                                    | <u>5,311,029</u> | <u>132,716</u> | <u>(378,216)</u>   | <u>5,065,960</u> | <u>47,088</u> | <u>5,113,048</u>          |       |

|  | Attributable to equity holders of the Company |                  |                |                    |                  | Non-controlling interests | Total            |
|--|---|------------------|----------------|--------------------|------------------|---------------------------|------------------|
|  | Share capital                                 | Share premium    | Other reserves | Accumulated Losses | Sub-total        |                           |                  |
|  | RMB'000                                       | RMB'000          | RMB'000        | RMB'000            | RMB'000          |                           |                  |
| <b>As at January 1, 2017</b> .....   | 431   | 5,311,029        | 210,878        | (356,113)          | 5,166,225        | 42,057                    | 5,208,282        |
| <b>Comprehensive income/(loss)</b> .....   |   |                  |                |                    |                  |                           |                  |
| Profit for the period.....   | —   | —                | —              | 212,020            | 212,020          | 1,469                     | 213,489          |
| Other comprehensive income .....   |   |                  |                |                    |                  |                           |                  |
| - Currency translation differences .....   | —   | —                | (21,835)       | —                  | (21,835)         | —                         | (21,835)         |
| <b>Total comprehensive income/(loss) for the period</b> .....                            | —   | —                | (21,835)       | 212,020            | 190,185          | 1,469                     | 191,654          |
| <b>Transaction with owners</b>   |   |                  |                |                    |                  |                           |                  |
| Share-based compensation expenses (Note 37) .....  | —   | —                | 52,600         | —                  | 52,600           | —                         | 52,600           |
| Issuance of ordinary shares .....  | 21  | 687,744          | —              | —                  | 687,765          | —                         | 687,765          |
| Disposal of equity interests in non-wholly owned subsidiaries .....                      | —   | —                | —              | —                  | —                | (7,152)                   | (7,152)          |
| Non-controlling interests arising from business combination.....                         | —   | —                | —              | —                  | —                | 46                        | 46               |
| Others .....   | —   | —                | 2,295          | —                  | 2,295            | —                         | 2,295            |
| <b>Total transactions with owners recognized directly in equity for the period</b> ..... | 21  | 687,744          | 54,895         | —                  | 742,660          | (7,106)                   | 735,554          |
| <b>As at June 30, 2017</b> .....   | <u>452</u>                                    | <u>5,998,773</u> | <u>243,938</u> | <u>(144,093)</u>   | <u>6,099,070</u> | <u>36,420</u>             | <u>6,135,490</u> |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Note | Year ended December 31, |                |                | Six months ended June 30, |                |
|--|------|-------------------------|----------------|----------------|---------------------------|----------------|
|  |      | 2014                    | 2015           | 2016           | 2016                      | 2017           |
|  |      | RMB'000                 | RMB'000        | RMB'000        | RMB'000                   | RMB'000        |
|  |      |                         |                |                | (Unaudited)               |                |
| <b>Cash flows from operating activities</b>  |      |                         |                |                |                           |                |
| Cash provided by/(used in) operations .....  | 40   | 114,915                 | 269,246        | 226,098        | (21,241)                  | 357,185        |
| Income tax paid .....  |      | (5,696)                 | (71,227)       | (40,311)       | (24,975)                  | (31,922)       |
| <b>Net cash flows generated from/(used in) operating activities .....</b>          |      | <u>109,219</u>          | <u>198,019</u> | <u>185,787</u> | <u>(46,216)</u>           | <u>325,263</u> |
| <b>Cash flows from investing activities .....</b>                                  |      |                         |                |                |                           |                |
| <b>Payments for business combinations, net of cash acquired (Note 39)</b>          |      | (3,806,500)             | (1,126)        | —              | —                         | (7,693)        |
| Placement of term deposits with initial term of over three months .....            |      | —                       | (10,000)       | —              | —                         | (475,334)      |
| Receipt from maturity of term deposit with initial term of over three months ..... |      | —                       | 7,909          | 10,000         | 10,000                    | —              |
| Payment for short-term investments .....   |      | —                       | (1,663,377)    | (2,072,900)    | (887,500)                 | (2,709,300)    |
| Proceeds from disposals of short-term investments ...                              |      | —                       | 1,454,187      | 2,003,672      | 932,077                   | 2,996,341      |
| Acquisition of investments in associates and a joint venture .....                 |      | —                       | (10,472)       | (63,300)       | (57,500)                  | (103,400)      |
| Purchase of property, plant and equipment .....                                    |      | (3,538)                 | (22,464)       | (19,861)       | (3,196)                   | (10,031)       |
| Purchase of intangible assets .....  |      | (52,171)                | (133,164)      | (113,231)      | (62,981)                  | (58,040)       |
| Proceeds from disposals of property, plant and equipment .....                     |      | —                       | 1,465          | 272            | 159                       | 20             |
| Proceeds from disposal of investment in associates...                              |      | —                       | —              | 3,100          | —                         | —              |

|  | Year ended December 31, |                  |                  | Six months ended June 30, |                 |
|--|-------------------------|------------------|------------------|---------------------------|-----------------|
|  | 2014                    | 2015             | 2016             | 2016                      | 2017            |
|  | RMB'000                 | RMB'000          | RMB'000          | RMB'000                   | RMB'000         |
|  |                         |                  |                  | (Unaudited)               |                 |
| Net cash inflow/(outflow)<br>arising from disposal of<br>subsidiaries.....                 | —                       | —                | (1,374)          | —                         | 17,429          |
| Interest received .....  | 126                     | 951              | 3,059            | 2,023                     | 26,288          |
| Receipt from maturity of<br>deposits placed with a<br>related party .....                  | —                       | —                | —                | —                         | 300,000         |
| Dividends received .....   | —                       | 25,500           | —                | —                         | 781             |
| Increase in amounts due<br>from related parties .....                                      | —                       | (295,781)        | (213,187)        | (213,187)                 | —               |
| <b>Net cash flows used in<br/>investing activities .....</b>                               | <b>(3,862,083)</b>      | <b>(646,372)</b> | <b>(463,750)</b> | <b>(280,105)</b>          | <b>(22,939)</b> |
| <b>Cash flows from financing<br/>activities</b>  |                         |                  |                  |                           |                 |
| Proceeds from borrowings .   | —                       | 300,000          | 241,622          | 241,622                   | 475,000         |
| Repayments of borrowings .   | (172)                   | (200,000)        | (247)            | (247)                     | (300,000)       |
| Finance costs paid .....   | —                       | (14,491)         | —                | —                         | (33,936)        |
| Redemption of convertible<br>bonds .....   | —                       | —                | (493,324)        | (493,324)                 | —               |
| Payment of the interest of<br>convertible bonds .....                                      | —                       | (9,530)          | —                | —                         | —               |
| Settlement related to the<br>acquisition of<br>non-controlling interests .                 | —                       | (82,822)         | (49,246)         | (49,246)                  | —               |
| Deemed contribution .....  | 18,314                  | —                | —                | —                         | —               |
| Proceeds from issuance of<br>ordinary shares .....   | 4,526,132               | —                | 652,445          | 652,445                   | 687,765         |
| Capital injection from a<br>non-controlling interest<br>shareholder .....                  | —                       | —                | 9,000            | 9,000                     | —               |
| Payment for guarantee fee...   | —                       | —                | —                | —                         | (3,128)         |
| Repayment of non-trade<br>payable due to a minority<br>shareholder of the<br>Company ..... | —                       | (57,300)         | —                | —                         | —               |

|  | Year ended December 31, |                 |                | Six months ended June 30, |                  |
|--|-------------------------|-----------------|----------------|---------------------------|------------------|
|  | 2014                    | 2015            | 2016           | 2016                      | 2017             |
|  | RMB'000                 | RMB'000         | RMB'000        | RMB'000                   | RMB'000          |
|  |                         |                 |                | (Unaudited)               |                  |
| <b>Net cash flows provided by/(used in) financing activities .....</b> | <u>4,544,274</u>        | <u>(64,143)</u> | <u>360,250</u> | <u>360,250</u>            | <u>825,701</u>   |
| Net increase/(decrease) in cash and cash equivalents .....             | 791,410                 | (512,496)       | 82,287         | 33,929                    | 1,128,025        |
| Cash and cash equivalents at the beginning of the year/period .....    | 39,202                  | 830,017         | 331,090        | 331,090                   | 404,915          |
| Cash and cash equivalents of disposal group .....                      | —                       | —               | (9,667)        | —                         | —                |
| Exchange gains/(losses) on cash and cash equivalents                   | <u>(595)</u>            | <u>13,569</u>   | <u>1,205</u>   | <u>314</u>                | <u>(3,027)</u>   |
| Cash and cash equivalents at the end of the year/period .....          | <u>830,017</u>          | <u>331,090</u>  | <u>404,915</u> | <u>365,333</u>            | <u>1,529,913</u> |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 General information, reorganisation and basis of presentation

#### 1.1 *General information*

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

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), are principally engaged in the provision of reading services (either free or paid), copyright commercialisation (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realisation of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the People’s Republic of China (the “PRC”).

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.

#### 1.2 *History and reorganisation of the Group*

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Group’s existing business excluding the businesses acquired during the year of 2014 as disclosed in Note 39 (the “Tencent Literature Business”), was operated through a number of entities controlled by Tencent. For the purpose of strengthening the literature business and to consolidate the market, the Tencent Literature Business, including relevant management and employees as well as operating assets and liabilities, have been transferred to the Group effective on May 1, 2014 in exchange for allotment and issue of 199,999,999 ordinary shares of the Company to entities controlled by Tencent. In addition, for the purpose of the Reorganisation, 55,000,000 ordinary shares of the Company were also allotted and issued to entities controlled by Tencent upon the conversion of 55,000,000 preference shares of the Company.

In 2014, the Group acquired 100% equity interest in entities engaging in the online literature business in the PRC, including “Chuangshi online literature” and “Cloudary Corporation” (Note 39).

The PRC regulations restrict foreign ownership of companies that provide Internet-based business, which include activities and services operated by the Group. The Group operates the online literature business through a series of contractual arrangements (collectively, “Structure Contracts”) entered into among the Company, Shanghai Yuechao Networking Technology Co., Ltd. (“Yuechao”), a wholly foreign owned enterprise incorporated in the PRC owned by the Group, Shanghai

Yuewen Information Technology Co., Ltd. (“Shanghai Yuewen”), a limited liability company established in the PRC by certain management of the Group, and certain management. Under the Structure Contracts, the Company is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Shanghai Yuewen and its subsidiaries. In summary, the Structure Contracts provide the Company through Shanghai Yuewen with, among other things:

- the right to receive the cash received by Shanghai Yuewen from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;
- the right to ensure that Yuechao owns the valuable assets of the business through the assignment to Yuechao of the principal present and future intellectual property rights of Shanghai Yuewen without making any payment; and
- the power to control the management and financial and operating policies of Shanghai Yuewen.

As a result, Shanghai Yuewen is accounted for as a controlled structured entity of the Company. Similar Structure Contracts were also executed for other PRC operating companies of the Group similar to Shanghai Yuewen. All these PRC operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

### 1.3 *Basis of presentation*

Immediately prior to the Reorganisation, the Tencent Literature Business was held and operated by a number of entities controlled by Tencent, and did not exist as a separate legally constituted group. The Company has not been involved in any business prior to and at the time of the Reorganisation. The transfer of the Tencent Literature Business from Tencent to the Company did not result in any change in the ultimate controlling party.

For the purpose of this report, the Tencent Literature Business is prepared using the carrying values of the Tencent Literature Business from Tencent’s perspective to present the financial position and performance of the Tencent Literature Business on a standalone basis throughout the period.

For the period from January 1, 2014 to April 30, 2014, the financial information of the Tencent Literature Business is derived from the accounting records of Tencent. The income statement of the Tencent Literature Business for the period from January 1, 2014 to April 30, 2014 includes all revenues, related costs, expenses and charges directly generated or incurred by the Tencent Literature Business. The statements of financial position of the Tencent Literature Business include the assets and liabilities that are directly related and clearly identified to the Tencent Literature Business.

The businesses acquired as disclosed in Note 39 were business combinations accounted for using acquisition method.



All intra-group transactions and balances within the Group are eliminated on consolidation.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

### 2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2017, are consistently applied to the Group for the Track Record Period.

#### 2.1.1 Changes in accounting policy and disclosures

Standards, amendments and interpretations that have been issued but not yet effective on January 1, 2017 and not been early adopted by the Group as of the Track Record Period, are as follows:

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

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far the Group has identified some aspects of the new and revised IFRSs that are expected to have an impact on the Group's accounting policies and are discussed below, which mainly include IFRS 9, IFRS 15 and IFRS 16. Other new and revised IFRSs are not expected to have a material impact on the Group's financial performance and position. The Group expects to adopt IFRS 9 from January 1, 2018 and does not expect the adoption of IFRS 9 would result in significant impact on the Group's financial performance and position except for certain TV drama participation investments that currently held as available-for-sale financial assets will be measured at fair value through profit or loss. The Group expects to adopt IFRS 15 from January 1, 2018 and it is anticipated that the adoption of IFRS15 will not have significant impact to the Group's financial performance and position (including the timing of recognition for revenue). And the Group also expects to adopt IFRS 16 from January 1, 2019 and does not expect the adoption of IFRS 16 would result in significant impact on the Group's financial performance and position except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. Management of the Group has just commenced an assessment on the classification and measurement of its financial assets under IFRS 9, the potential impact to the future financial statements has yet to be determined. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, management expects it might result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretation's on revenue recognition. IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognize revenue when performance obligation is satisfied. The core principal is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control.

IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018.

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The Group is a lessee of various servers and properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.28 with the Group's future operating lease commitments, which are not reflected in the consolidated statements of financial position, set out in note 38. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the consolidated statements of financial position. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statements of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statement of financial position. As for the financial performance impact in the consolidated statements of comprehensive income or loss, the operating lease expenses will decrease, while depreciation and amortisation and the interest expense will increase. The new standard is not expected to apply until the financial year 2019. The Group's future aggregate minimum lease payments under non-cancellable operating leases as at June 30, 2017 are approximately RMB99,253,000. (Less than one year is approximately RMB39,648,000, more than one year and less than five years is approximately RMB59,605,000).

## 2.2 *Subsidiaries*

### 2.2.1 *Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income or loss.

*2.2.2 Separate financial statements*

Investments in subsidiaries (including structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividends from these investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividends declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

#### (a) *Investments in associates in the form of ordinary shares*

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income or loss is reclassified to consolidated statement of comprehensive income or loss where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated statement of comprehensive income or loss, and its share of post-acquisition movements in other comprehensive income or loss is recognized in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of profit of investments accounted for using equity method" in the consolidated statement of comprehensive income or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated statement of comprehensive income or loss.

(b) *Investments in associates in the form of convertible redeemable preferred shares*

Investments in associates in the form of convertible redeemable preferred shares or ordinary shares with preferential rights or redeemable convertible preferred shares are accounted for as hybrid financial instruments and designated as financial assets measured at fair value through profit or loss (Note 2.10).

#### 2.4 *Joint arrangements*

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint operations with a content distribution platform and TV drama production companies for intellectual property monetization operations. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.5 *Foreign currency translation*

### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The function currency of the Company is United States dollar ("US\$"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income or loss.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale financial assets are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost and interest income are recognized in the consolidated statement of financial position, and other changes in carrying amount are recognized in other comprehensive income or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated statement of financial position as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income or loss.

### (c) *Group companies*

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of RMB are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each consolidated statement of comprehensive income or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and



- (iii) All resulting currency translation differences are recognized as a separate component of other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income or loss.

## 2.6 *Property, plant and equipment*

All property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

|                        |   |
|------------------------|---|
| Computer equipment     | 3 to 5 years  |
| Leasehold improvements | the shorter of their useful lives and the lease terms |
| Furniture and fixtures | 2 to 5 years  |
| Motor vehicles         | 5 years   |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in "Other gains/(losses), net" in the consolidated statement of comprehensive income or loss.

Construction in progress represents leasehold improvements and office equipment under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalized costs attributable to the

construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as set out above.

## 2.7 *Intangible assets*

### (a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### (b) *Acquired trademarks*

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and over their estimated useful lives of no more than 20 years. The useful lives of the trademarks are the periods over which the trademarks are expected to be available for use by the Group, and the management of the Group also takes into account of past experience when estimating the useful lives.

### (c) *Copyrights of contents*

Copyrights of contents purchased from writers are initially recognized and measured at costs. Copyrights of contents acquired in a business combination are recognized initially at fair value at the acquisition date. Copyrights of contents are amortised on a straight-line basis over their estimated useful economic lives of 3 to 10 years.

(d) *Other intangible assets acquired in a business combination*

Other intangible assets acquired in a business combination, mainly including writers' contract, distribution channel relationship and customers relationship, are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the costs of acquired intangible assets over the following estimated useful lives:

|                                   |               |
|-----------------------------------|---------------|
| Writers' contracts                | 5 to 6 years  |
| Distribution channel relationship | 2 to 12 years |
| Customers relationship            | 5 years       |

(e) *Other intangible assets*

Other intangible assets mainly include software and domain names. They are initially recognized and measured at cost or estimated fair value of intangible assets acquired through business combinations. Other intangible assets are amortised over their estimated useful lives (generally 3 to 5 years) using the straight-line method.

## 2.8 *Non-current assets (or disposal groups) held-for-sale*

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) or disposal groups are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries and associates), even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

## 2.9 *Impairment of non-financial assets*

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.10 *Financial assets*

### 2.10.1 *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables mainly comprise "Trade and notes receivables", "Prepayments, deposits and other assets" (excluding prepayments), "Other investment — TV drama participation investments (principal and return guaranteed)", "Term deposits" and "Cash and cash equivalents" in the consolidated statements of financial position.

#### (iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

### 2.10.2 *Recognition and measurement*

Regular way purchases and sales of investments are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income or loss.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income or loss are included in the consolidated statement of comprehensive income or loss as gains and losses from investment securities.

Dividends on available-for-sale financial assets equity instruments are recognized in the consolidated statement of financial position when the Group's right to receive payments is established.

### 2.11 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 2.12 *Impairment of financial assets*

#### (a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the impairment loss is recognized in the consolidated statement of comprehensive income or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income or loss.

(b) *Assets classified as available-for-sale financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income or loss — is removed from equity and recognized in the consolidated statement of comprehensive income or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income or loss, the impairment loss is reversed through the consolidated statement of comprehensive income or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income or loss - is removed from equity and recognized in the consolidated statement of comprehensive income or loss. Impairment losses recognized in the consolidated statement of comprehensive income or loss on equity instruments are not reversed through the consolidated statement of comprehensive income or loss.

### **2.13 *Derivative financial instruments***

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

### **2.14 *Inventories***

Inventories, consisting principally of paper and books, are stated at the lower of cost, using the weighted average method, or net realisable value. The inventory held with the distributors is on a consignment basis and is carried as such until sold or returned. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories other than papers and books consist primarily of animation production costs and side-line merchandise for sale, which are stated at the lower of cost or net realizable value.

### ***2.15 Trade and notes receivables***

Trade and notes receivables are amounts due from customers or agents for services performed or inventories sold in the ordinary course of business. If collection of trade and notes receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and notes receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### ***2.16 Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### ***2.17 Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

### ***2.18 Trade payables***

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

### ***2.19 Put option liability***

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase the equity instrument that held by the counterparty for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it is reclassified from equity and has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognized as income or expenses in the consolidated statement of comprehensive income or loss. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The put option liabilities are classified as current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.



### **2.20 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### **2.21 Convertible bonds**

The Group designates the convertible bonds as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive income or loss. Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognized in the profit or loss. The convertible bonds are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

A substantial modification of the terms of convertible bonds should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. In this regard, the terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If this test is met, the exchange is considered an extinguishment. In addition, the Group also assesses if the change in terms adds, removes, significantly changes to a substantive contractual term or to the nature of the overall instrument.

### **2.22 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income or loss, except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity. In this case, the tax is also recognized in other comprehensive income or loss or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.23 *Employee benefits*

#### (a) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

#### (b) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separated from those of the Group.

#### (c) *Share-based compensation benefits of Tencent*

Tencent operates a number of share-based compensation plans (including share option schemes and share award schemes), under which Tencent including the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of Tencent is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to contribution from shareholder under equity.

For grant of share options, the total amount to be expensed is determined by reference to the fair value of the options granted by using option-pricing models - Black-Scholes valuation model (the "BS Model") and "Enhanced FAS 123" binomial model (the "Binomial Model"), which include the impact of market performance conditions (such as the Tencent's share price) but exclude the impact of service condition and non-market performance conditions. For grant of award shares, the total amount to be expensed is determined by reference to the market price of the Company's shares at the grant date. Tencent also adopts valuation technique to assess the fair value of other equity instruments of Tencent granted under the share-based compensation plans as appropriate.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to become vested.

At each reporting period end, the Group revise their estimates of the number of options and awarded shares that are expected to ultimately vest. They recognise the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income or loss of the Group, with a corresponding adjustment made to contribution from shareholder over the remaining vesting period.

If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

(d) *Share-based compensation benefits of the Group*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of restricted shares units (“RSUs”) is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted:

- including any market performance conditions (for example, an entity’s share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period. Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

At the end of each reporting period, the Group revises its estimates of the number of RSUs that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

#### 2.24 *Provisions*

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 2.25 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and sales tax and related surcharges. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

#### (a) *Online paid reading*

The Group generates revenue from the sale of online premium literature content to the users primarily through its products, our self-operated channels on Tencent products and third-party platforms. The Group evaluates whether it is appropriate to record the gross amount of sales and related costs or the net amount earned as revenues. Generally, when the Group is primarily obligated in a transaction and has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross sale amount. The Group generally records the net amounts as revenues earned if it is not primarily obligated and does not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, or some combination thereof.

With respect to the online paid reading revenue that derived from the Group's products and self-operated channels, the Group is determined to be the primary obligor and accordingly, the Group records revenue on a gross basis, and the platform distribution charges by Tencent are recorded as cost of revenues. The users generally purchase the content by chapter or by book and cannot cancel the purchase once made. The users can pay for their purchases either through the online payment channels, tokens issued by related parties or through credits directly deposited into their respective accounts which they can make directly on the Group's self-owned platforms or related parties' platforms that including the channels operated by the Group. The purchased content usually has no expiry period unless otherwise stated. The revenue from purchase of online content or other community tools (such as votes and virtual gifts for an writer) are recognized at the time of purchase by the users as the Group does not have further obligation after providing the content to the user upon purchase and all other criteria for revenue recognition is met. The Group's community tools are generally consumable virtual

items that will be extinguished shortly after consumption. As such, the users will not continue to benefit from the community tools and the Group does not have further obligations to the users after the virtual items are consumed. Therefore, revenue is recognized immediately when the community tools are consumed.

With respect to the online paid reading revenue that derived from third-party platforms, the Group evaluated and determined is it not the primary obligor in the service rendered to the end users and accordingly, the Group records its revenue based on the portion of the sharing of revenues that derived from the platforms.

Furthermore, for the online paid users loyalty programme (“VIP customers programme”) operated by the Group on its self-owned platform products, the loyalty programme revenue is allocated between the fair value of the VIP customers programme and the that of other components of the sale. The amount allocated to the VIP customers programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted reading service under the terms of the VIP customers programme.

(b) *Intellectual property operations*

The Group also generates revenues from sub-licensing copyrights of literary works obtained from writers to online game companies, television producers, movie studios, and traditional offline book publishers for agreed periods. The revenue from sub-licensing agreements is recognized when all the following criteria are met: persuasive evidence of an arrangement exists; the content has been delivered or is available for immediate and unconditional delivery and the Group has no further obligations; the price to the customer is fixed or determinable; and collectability is reasonably assured. Depending on the terms of the respective agreements, revenue is recognized either upfront upon the beginning of the sub-licensing agreement to the extent of the fixed and non-refundable amount received upfront or over the period of the sub-licensing agreement under which the Group need to provide consistent services. Any amount of revenue which is contingent upon future events (for example future revenue generated by using the copyright) is recognized when the contingency is met.

(c) *Physical books*

The Group sells its published books through chain and online bookstores and wholesalers (collectively referred to as “distributors”). Following the normal industry practice in China, the Group provides the books to the distributors substantively on consignment basis. Accordingly, the Group has not transferred risk and rewards of the inventory upon delivery to the distributor. Risk and rewards are only transferred when the books are sold to the end customers. With respect to the distributors that do not provide any information about the books sold or damaged until settlement, the Group recognises the revenue until the settlement with the distributor. With respect to the distributors that provide real time information about the books sold, the Group recognises the revenue when the books have been sold to end customers.

(d) *Other revenues*

The Group's other revenues are primarily derived from provision of online game service and online advertising service.

The Group provides game operation services through its own web-based platforms and third party web-based platforms (collectively "Platforms"). The Group's games are free-to-play and players can pay for virtual items to enhance the in-game experience. Upon the sale of virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be displayed and used in the respective games. As such, the proceeds from the sales of virtual items are initially recorded in deferred revenue and are recognized as revenue subsequently only when the services have been rendered. The Group concluded the Group takes the primary responsibilities in rendering services and accordingly, the Group records revenue on a gross basis and platform distribution costs are recorded as costs of revenue. The Group also publishes third party developers' games on its own web-based platforms. The Group determined it is not the primary obligor in the services rendered to the paying players with respect to game publishing and accordingly, the Group records its revenue on a net basis and recognize revenues for in-game virtual items procured by the use of game credits over the estimated user relationship period.

Advertising revenues are derived from online advertising whereby the Group allows advertisers to place advertisements on particular areas of its websites. Arrangements with advertising agencies, as the intermediaries, are structured to permit discretion over the use and sale of the advertising capacity to end advertisers. Advertising revenues from arrangements with agencies are recognized ratably over the contract periods. The Group also generates advertising revenues from pay-for-click services which enable advertisers' promotional links to be displayed on particular areas of its applications where the links are relevant to the subject and content of such web pages. Revenue for pay-for-click services is recognized on a per-click basis when the users click on the displayed links.

**2.26 *Interest income***

Interest income is recognized on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

**2.27 *Government grants/subsidies***

Grants/subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants/subsidies are recognized as income or matched with the associated costs which the grants/subsidies are intended to compensate.

**2.28 *Leases***

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income or loss on a straight-line basis over the period of the lease.



### 2.29 *Research and development expenses*

Research expenditure is recognized as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

### 2.30 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the vice presidents of the Group.

### 2.31 *Dividends distribution*

Dividends distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## 3 **Financial risk management**

### 3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### (a) *Market risk*

##### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is US\$ whereas functional currency of the subsidiaries operate in the PRC are RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

The Group operates mainly in the PRC with most of the transactions settled in RMB, management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group's entities, except for the amount due from the Group's related party Oriental Power Holdings Limited as discussed in Note 23(d), which was already collected in June 2017.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for other investments - short-term investments, term deposits, cash and cash equivalents and loans receivable from related parties, details of which have been disclosed in Notes 27, 28 and 23, respectively.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

As at December 31, 2014, 2015 and 2016, the Group's borrowings were borrowings that carried at fixed rates, which did not expose the Group to cash flow interest-rate risk. As at June 30, 2017, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit for the six month ended June 30, 2017 would have been approximately RMB606,000 lower/higher, mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings.

(b) *Credit risk*

The Group is exposed to credit risk primarily in relation to its cash and deposits (including term deposits) placed with banks and financial institutions, short-term investments, as well as trade and notes receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

For the Group's online business, trade receivables at the end of each reporting period were mainly due from certain telecommunication operators and content distribution partners (including Tencent's platforms) in Mainland China. If the strategic relationship with the telecommunication operators and content distribution partners is terminated or scaled-back; or if the telecommunication operators and content distribution partners alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the telecommunication operators and content distribution partners to ensure effective credit control. In view of the history of cooperation with the telecommunication operators

and content distribution partners and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the telecommunication operators and content distribution partners (except for the impaired receivables) is low. For trade receivables of the physical books business, which are mainly from agencies, the credit quality of each agent is assessed, which takes into account its financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

|  | Less than<br>1 year | Between 1 and<br>2 year | Between 2 and<br>5 year | Total            |
|--|---------------------|-------------------------|-------------------------|------------------|
|  | RMB'000             | RMB'000                 | RMB'000                 | RMB'000          |
| <b>As at December 31, 2014</b>   |                     |                         |                         |                  |
| Trade payables .....   | 225,893             | —                       | —                       | 225,893          |
| Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable) ... | 258,911             | —                       | —                       | 258,911          |
| Borrowings .....   | 200,000             | —                       | —                       | 200,000          |
| Put option liability .....   | —                   | —                       | 65,396                  | 65,396           |
| Convertible bonds .....  | —                   | 471,775                 | —                       | 471,775          |
| Other non-current liabilities .....  | —                   | 14,556                  | —                       | 14,556           |
| Total: .....   | <u>684,804</u>      | <u>486,331</u>          | <u>65,396</u>           | <u>1,236,531</u> |
| <b>As at December 31, 2015</b>   |                     |                         |                         |                  |
| Trade payables .....   | 222,867             | —                       | —                       | 222,867          |
| Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable) ... | 216,337             | —                       | —                       | 216,337          |

|   | Less than<br>1 year | Between 1 and<br>2 year | Between 2 and<br>5 year | Total            |
|---|---------------------|-------------------------|-------------------------|------------------|
|   | RMB'000             | RMB'000                 | RMB'000                 | RMB'000          |
| Borrowings .....  | 300,000             | 247                     | —                       | 300,247          |
| Put option liability .....  | —                   | 69,273                  | —                       | 69,273           |
| Convertible bonds .....   | 577,930             | —                       | —                       | 577,930          |
| Other non-current liabilities .....   | —                   | 1,500                   | —                       | 1,500            |
| Total: .....  | <u>1,317,134</u>    | <u>71,020</u>           | <u>—</u>                | <u>1,388,154</u> |
| <b>As at December 31, 2016</b>  |                     |                         |                         |                  |
| Trade payables .....  | 419,697             | —                       | —                       | 419,697          |
| Other payables and accruals (excluding<br>prepayments received from customers,<br>staff costs and welfare accruals, special<br>funds payable and other tax payable) ... | 252,838             | —                       | —                       | 252,838          |
| Borrowings .....  | 541,622             | —                       | —                       | 541,622          |
| Put option liability .....  | 73,455              | —                       | —                       | 73,455           |
| Total: .....  | <u>1,287,612</u>    | <u>—</u>                | <u>—</u>                | <u>1,287,612</u> |
| <b>As at June 30, 2017</b>  |                     |                         |                         |                  |
| Trade payables .....  | 522,221             | —                       | —                       | 522,221          |
| Other payables and accruals (excluding<br>prepayments received from customers,<br>staff costs and welfare accruals, special<br>funds payable and other tax payable) ... | 277,496             | 15,907                  | —                       | 293,403          |
| Borrowings .....  | 240,646             | 475,000                 | —                       | 715,646          |
| Put option liability .....  | 75,608              | —                       | —                       | 75,608           |
| Total: .....  | <u>1,115,971</u>    | <u>490,907</u>          | <u>—</u>                | <u>1,606,878</u> |

### 3.2 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern and support the sustainable growth of the Group in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance equity holders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. Total capital is calculated as "equity" as shown in the consolidated statements of financial position plus net debts. As at June 30, 2017, the Group has a net cash position.

3.3 *Fair value estimation*

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2014, 2015 and 2016 and June 30, 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2014.

|  | Level 1  | Level 2       | Level 3       | Total         |
|--|----------|---------------|---------------|---------------|
|  | RMB'000  | RMB'000       | RMB'000       | RMB'000       |
| <b>As at December 31, 2014</b>   |          |               |               |               |
| Assets   |          |               |               |               |
| Other investments - short-term   |          |               |               |               |
| investments .....  | <u>—</u> | <u>66,486</u> | <u>—</u>      | <u>66,486</u> |
| Liabilities  |          |               |               |               |
| Convertible bonds .....  | —        | —             | 471,775       | 471,775       |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests (current portion) .....     | —        | —             | 83,381        | 83,381        |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests (non-current portion) ..... | <u>—</u> | <u>—</u>      | <u>14,556</u> | <u>14,556</u> |

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2015.

**APPENDIX I**
**ACCOUNTANT'S REPORT**

|   | Level 1 | Level 2 | Level 3 | Total   |
|---|---------|---------|---------|---------|
|   | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <b>As at December 31, 2015</b>  |         |         |         |         |
| Assets  |         |         |         |         |
| Other investments - short-term  |         |         |         |         |
| investments .....   | —       | 287,449 | —       | 287,449 |
| Derivative financial assets .....   | —       | —       | 8,400   | 8,400   |
| Investment in redeemable shares of an associate .....                               | —       | —       | 74,008  | 74,008  |
| Liabilities   |         |         |         |         |
| Convertible bonds .....   |         |         |         |         |
| Consideration payable related to the acquisition of non-controlling interests ..... | —       | —       | 9,337   | 9,337   |

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2016.

|  | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
|  | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <b>As at December 31, 2016</b>   |         |         |         |         |
| Assets   |         |         |         |         |
| Other investments - short-term   |         |         |         |         |
| investments .....  | —       | 368,271 | —       | 368,271 |
| Derivative financial assets .....  | —       | —       | 7,500   | 7,500   |
| Investment in redeemable shares of an associate .....  | —       | —       | 106,508 | 106,508 |
| Liabilities  |         |         |         |         |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests ..... |         |         |         |         |
|  | —       | —       | 500     | 500     |

The following table presents the Group's assets and liabilities that are measured at fair value as at June 30, 2017.

|  | Level 1  | Level 2  | Level 3        | Total          |
|--|----------|----------|----------------|----------------|
|  | RMB'000  | RMB'000  | RMB'000        | RMB'000        |
| <b>As at June 30, 2017</b>   |          |          |                |                |
| <b>Assets</b>  |          |          |                |                |
| Other investments - short-term investments .....   | —        | 85,818   | —              | 85,818         |
| Other investments - TV drama participation investments (principal guaranteed with variable returns).....   | —        | —        | 59,585         | 59,585         |
| Derivative financial assets .....  | —        | 12,407   | —              | 12,407         |
| Investments in redeemable shares of associates .....   | <u>—</u> | <u>—</u> | <u>175,000</u> | <u>175,000</u> |
| <b>Liabilities</b>   |          |          |                |                |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests ..... | <u>—</u> | <u>—</u> | <u>500</u>     | <u>500</u>     |

The fair value of financial instruments traded in active markets is determined based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.



Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no changes in valuation techniques during the Track Record Period.

The changes in level 3 instruments for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 are presented in Notes 19, 21, 27, 29 and 33.

### Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

| Description  | Fair value at |            |            | Significant unobservable inputs* | Range of inputs          |               |            | Relationship of unobservable inputs to fair value |   |
|--|---------------|------------|------------|----------------------------------|--------------------------|---------------|------------|---|---|
|  | 31/12/2014    | 31/12/2015 | 31/12/2016 |                                  | 31/12/2014               | 31/12/2015    | 31/12/2016 |   |   |
|  | RMB'000       | RMB'000    | RMB'000    |                                  | 30/6/2017                | 30/6/2017     | 30/6/2017  |   |   |
| <b>Asset</b>   |               |            |            |                                  |                          |               |            |   |   |
| Investment in redeemable shares of associates  | —             | 74,008     | 106,508    | 175,000                          | Lack of control discount | —             | 29%        | —   | The higher the lack of control discount, the lower the fair value |
| Derivative financial assets  | —             | 8,400      | 7,500      | —                                | Spot price               | —             | Note a     | Note a  | The higher the spot price, the lower the fair value               |
| Other investments - TV drama participation investments   | —             | —          | —          | 59,585                           | Expected volatility      | —             | 40%-50%    | 20%-30%   | The higher the expected volatility, the higher the fair value     |
| <b>Liabilities</b>   |               |            |            |                                  |                          |               |            |   |   |
| Convertible bonds  | 471,775       | 577,930    | —          | —                                | Discount rate            | 10.50%-10.70% | 10.6%      | —   | The higher the lack of discount rate, the lower the fair value    |
| Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests | 97,937        | 9,337      | 500        | 500                              | Spot price               | Note a        | Note a     | —   | The higher the spot price, the higher the fair value              |
|  |               |            |            |                                  | Expected volatility      | 30.00%-40.00% | 33%        | —   | The higher the expected volatility, the higher the fair value     |

\* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

Note a The spot price is determined based on equity value of underlying business as at respective date.

Note b These TV drama production projects are still at initial stages and the fair value of these investments approximated to the initial payments of cash consideration made by the Group.

Note c The significant unobservable input of consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests is the estimated financial performances of the underlying acquired non-controlling interest. The Group determined the fair value of these considerations payable based on the estimated financial performance and the predetermined formula that set out in the respective share purchase agreement.

## Sensitivity analysis

For the fair value of investment in redeemable shares of associates, derivative financial assets and convertible bonds, reasonably possible changes at December 31, 2014, 2015 and 2016 and June 30, 2017 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

|   | December 31, |          | June 30, |          |          |          |          |          |
|---|--------------|----------|----------|----------|----------|----------|----------|----------|
|   | 2014         | 2015     | 2016     | 2017     | Increase | Decrease | Increase | Decrease |
| Changes in fair value (in RMB'000)            |              |          |          |          |          |          |          |          |
|   | Increase     | Decrease | Increase | Decrease | Increase | Decrease | Increase | Decrease |
| Investment in redeemable shares of associates |              |          |          |          |          |          |          |          |
| - Lack of control discount (5% movement)..... | —            | —        | (5,181)  | 5,180    | —        | —        | —        | —        |
| Derivative financial assets                   |              |          |          |          |          |          |          |          |
| - Spot price (5% movement).....               | —            | —        | (100)    | 200      | (200)    | 200      | —        | —        |
| - Expected volatility (5% movement).....      | —            | —        | 200      | (100)    | 200      | (200)    | 200      | —        |
| Convertible bonds                             |              |          |          |          |          |          |          |          |
| - Discount rate (3% movement).....            | (2,448)      | 3,059    | —        | 6,494    | —        | —        | —        | —        |
| - Spot price (5% movement).....               | 22,028       | (20,193) | 25,974   | (19,481) | —        | —        | —        | —        |
| - Expected volatility (5% movement).....      | 3,671        | (1,836)  | 6,494    | —        | —        | —        | —        | —        |

The Group determines the fair value of the Group's financial instrument carried at fair value in level 2 and level 3 at each of the reporting dates.

The carrying amounts of the Group's financial assets including cash and cash equivalents, current term deposit, trade and notes receivables, other receivables, and the Group's financial liabilities, including trade payables, other payables and accruals approximate to their fair values due to their short maturities. The carrying amount of non-current term deposit approximate to their fair value as the interest rates they have reflect the current market interest rate. The carrying amounts of the TV drama participation investments (principal and return guaranteed) approximate to their fair value as the return rates they have reflect the current market return for comparable investments. The carrying amounts of the Group's short-term and long-term borrowings approximate to their fair value as the interest rates they bear reflect the current market yield for comparable borrowings.

#### 4 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) *Recoverability of non-financial assets*

The Group tests annually whether goodwill has suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income or loss.

(b) *Business combinations*

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

(c) *Useful lives and amortisation charges of intangible assets*

The Group's management determines the estimated useful lives and related amortisation charges for the Group's intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the amortisation

charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore amortisation expense in future periods.

(d) *Estimation of put option liability*

The Group granted put option to the non-controlling interest owners that they have the right to request the Group to repurchase the equity interests in a non-wholly owned subsidiary that held by the non-controlling interest owners when certain conditions are met. The Group initially recognise a financial liability at the present value of the estimated future cash outflows under the put option arrangement, and at the end of each subsequent period, the Group will revisit their estimations. If the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows and the adjustments will be recognized as income or expenses in the consolidated statement of comprehensive income or loss.

(e) *Income taxes*

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

## 5 **Segment information**

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM.

As a result of this evaluation, the chief executive officers and the vice presidents of the Group consider that the Group's operations are operated and managed as a single segment; accordingly no segment information is presented.

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

As at December 31, 2014, 2015 and 2016 and June 30, 2017, substantially all of the non-current assets of the Group other than certain long-term receivables (Note 23) were located in the PRC.

## 6 Revenues

|   | Year ended December 31, |                  |                  | Six months ended June 30, |                  |
|---|-------------------------|------------------|------------------|---------------------------|------------------|
|   | 2014                    | 2015             | 2016             | 2016                      | 2017             |
|   | RMB'000                 | RMB'000          | RMB'000          | RMB'000                   | RMB'000          |
|   |                         |                  |                  | (Unaudited)               |                  |
| Online reading  |                         |                  |                  |                           |                  |
| - on our self-owned platform products .....               | 316,642                 | 590,834          | 1,057,641        | 405,027                   | 871,510          |
| - on our self-operated channels on Tencent products ..... | 125,395                 | 197,955          | 666,438          | 214,686                   | 545,805          |
| - on our third-party platforms ...                        | 10,959                  | 182,139          | 249,984          | 103,647                   | 216,463          |
| Intellectual property operations ...                      | 12,148                  | 162,760          | 247,408          | 108,629                   | 155,660          |
| Revenue from sales of physical books .....                | —                       | 228,524          | 224,033          | 108,664                   | 93,896           |
| Others .....  | 1,064                   | 244,428          | 111,362          | 58,932                    | 40,864           |
|   | <u>466,208</u>          | <u>1,606,640</u> | <u>2,556,866</u> | <u>999,585</u>            | <u>1,924,198</u> |

## 7 Expenses by nature

|  | Year ended December 31, |         |         | Six months ended June 30, |         |
|--|-------------------------|---------|---------|---------------------------|---------|
|  | 2014                    | 2015    | 2016    | 2016                      | 2017    |
|  | RMB'000                 | RMB'000 | RMB'000 | RMB'000                   | RMB'000 |
|  |                         |         |         | (Unaudited)               |         |
| Content costs (Note) .....                           | 190,242                 | 391,432 | 838,975 | 297,412                   | 585,052 |
| Promotion and advertising expenses .....             | 28,963                  | 296,728 | 491,421 | 248,434                   | 296,877 |
| Employee benefits expenses (Note 8) .....            | 91,272                  | 406,596 | 437,410 | 206,764                   | 261,043 |
| Amortisation of intangible assets (Note 16) .....    | 23,468                  | 221,454 | 192,464 | 102,150                   | 81,062  |
| Online reading platform distribution costs .....     | 15,454                  | 37,449  | 152,971 | 49,182                    | 123,999 |
| Cost of inventories sold (Note 24) .....             | —                       | 106,958 | 108,957 | 51,679                    | 46,054  |
| Payment handling costs .....                         | 66,896                  | 82,686  | 101,220 | 34,114                    | 100,356 |
| Bandwidth and server custody fees .....              | 7,016                   | 30,101  | 46,925  | 20,649                    | 28,634  |
| Provision for inventory obsolescence (Note 24) ..... | —                       | 34,496  | 42,046  | 19,810                    | 21,009  |
| Operating lease rentals .....                        | 1,757                   | 28,212  | 35,853  | 15,922                    | 22,958  |

|   | Year ended December 31, |                  |                  | Six months ended June 30, |                  |
|---|-------------------------|------------------|------------------|---------------------------|------------------|
|   | 2014                    | 2015             | 2016             | 2016                      | 2017             |
|   | RMB'000                 | RMB'000          | RMB'000          | RMB'000                   | RMB'000          |
| Professional service fees .....   | 2,158                   | 18,164           | 35,564           | 15,929                    | 43,005           |
| Travelling, entertainment and<br>general office expenses .....  | 15,410                  | 27,311           | 29,798           | 13,696                    | 12,854           |
| Animation production costs .....  | —                       | —                | 28,149           | 5,579                     | 25,168           |
| Online game platform distribution<br>costs .....  | —                       | 149,661          | 23,165           | 13,758                    | 7,821            |
| Depreciation of property, plant<br>and equipment (Note 15) .....  | 1,409                   | 12,284           | 14,531           | 7,351                     | 13,688           |
| Game development outsourcing<br>costs .....   | 2,220                   | 8,565            | 11,019           | 4,328                     | 13,417           |
| Logistic expenses .....   | —                       | 10,129           | 8,855            | 5,143                     | 4,531            |
| Auditors' remuneration .....  | 1,600                   | 5,400            | 3,792            | 1,751                     | 4,358            |
| Provision for/(reversal of)<br>doubtful receivables .....   | —                       | 10,799           | 1,264            | (1,887)                   | 19,742           |
| Others .....  | 14,235                  | 42,838           | 53,080           | 23,728                    | 41,275           |
| <b>Total cost of revenues, selling<br/>and marketing expenses and<br/>general and administrative<br/>expenses .....</b> | <b>462,100</b>          | <b>1,921,263</b> | <b>2,657,459</b> | <b>1,135,492</b>          | <b>1,752,903</b> |

## Notes:

- (a) Other than the initial acquisition of the copyright from writers, the Group also pays a certain percentage of the revenues earned on such content posted through its self-owned and third party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements. The amounts payable to writers under the revenue sharing arrangements with the writers are reported as expense under cost of revenues in the Group's consolidated statements of comprehensive income or loss.
- (b) Research and development expenses (being included in the Group's general and administrative expenses) for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017 were approximately RMB 23,204,000, RMB 112,611,000, RMB 186,960,000, RMB 82,587,000 and RMB 129,957,000, respectively, which mainly included employee benefits expenses of research and development function staff.



## 8 Employee benefits expenses

|   | Year ended December 31, |                |                | Six months ended June 30, |                |
|---|-------------------------|----------------|----------------|---------------------------|----------------|
|   | 2014                    | 2015           | 2016           | 2016                      | 2017           |
|   | RMB'000                 | RMB'000        | RMB'000        | RMB'000                   | RMB'000        |
|   |                         |                |                | (Unaudited)               |                |
| Wages, salaries and bonuses .....   | 69,656                  | 210,678        | 279,137        | 132,004                   | 162,231        |
| Other social security costs,<br>housing benefits and other<br>employee benefits ..... | 9,528                   | 41,561         | 52,898         | 24,877                    | 32,836         |
| Pension costs — defined<br>contribution plans .....                                   | 5,510                   | 22,571         | 27,352         | 10,724                    | 13,376         |
| Share-based compensation<br>expenses (Note 36, 37) .....                              | 6,578                   | 131,786        | 78,023         | 39,159                    | 52,600         |
|   | <u>91,272</u>           | <u>406,596</u> | <u>437,410</u> | <u>206,764</u>            | <u>261,043</u> |

## (a) Five highest paid individual

The five individuals whose emoluments were the highest in the Group include one director for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 respectively, and their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the remaining four individuals during the Track Record Period are as follows:

|   | Year ended December 31, |               |               | Six months ended June 30, |               |
|---|-------------------------|---------------|---------------|---------------------------|---------------|
|   | 2014                    | 2015          | 2016          | 2016                      | 2017          |
|   | RMB'000                 | RMB'000       | RMB'000       | RMB'000                   | RMB'000       |
|   |                         |               |               | (Unaudited)               |               |
| Salaries, wages and bonuses .....   | 5,073                   | 3,757         | 5,368         | 1,989                     | 2,603         |
| Other social security costs,<br>housing benefits and other<br>employee benefits ..... | 336                     | 269           | 275           | 134                       | 139           |
| Pension costs — defined<br>contribution plans .....                                   | 162                     | 176           | 184           | 91                        | 95            |
| Share-based compensation<br>expenses .....  | 960                     | 39,546        | 23,534        | 11,672                    | 12,576        |
|   | <u>6,531</u>            | <u>43,748</u> | <u>29,361</u> | <u>13,886</u>             | <u>15,413</u> |

The emoluments fell within the following bands:

|                                      | Number of individuals   |          |          |                           |          |
|--------------------------------------|-------------------------|----------|----------|---------------------------|----------|
|                                      | Year ended December 31, |          |          | Six months ended June 30, |          |
|                                      | 2014                    | 2015     | 2016     | 2016                      | 2017     |
|                                      |                         |          |          | (Unaudited)               |          |
| Emoluments bands:                    |                         |          |          |                           |          |
| HK\$10,000,001 to HK\$20,000,000 ..  | —                       | 3        | 1        | —                         | —        |
| HK\$5,000,001 to HK\$10,000,000 .... | —                       | 1        | 3        | —                         | 2        |
| HK\$4,000,001 to HK\$5,000,000 ..... | —                       | —        | —        | 3                         | 1        |
| HK\$3,000,001 to HK\$4,000,000 ..... | —                       | —        | —        | —                         | 1        |
| HK\$2,000,001 to HK\$3,000,000 ..... | 2                       | —        | —        | 1                         | —        |
| HK\$1,000,001 to HK\$2,000,000 ..... | 2                       | —        | —        | —                         | —        |
|                                      | <u>4</u>                | <u>4</u> | <u>4</u> | <u>4</u>                  | <u>4</u> |

During the Track Record Period, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

(b) *Benefits and interests of directors*

The remuneration of each director of the Company paid/payable by the Group for the year ended December 31, 2014 are set out as follows:

|  | Director's fee | Salaries, wages and bonuses | Pension costs- defined contribution plan | Other social security costs, housing benefits and other employee benefits | Share-based compensation expenses | Total        |
|--|----------------|-----------------------------|--|---|-----------------------------------|--------------|
|  | RMB'000        | RMB'000                     | RMB'000                                  | RMB'000   | RMB'000                           | RMB'000      |
| Executive directors                          |                |                             |  |   |                                   |              |
| - Wu Wenhui <sup>(1)</sup> .....             | —              | 2,395                       | 26                                       | 43  | —                                 | 2,464        |
| - Liang Xiaodong <sup>(1)</sup> ....         | —              | —                           | —  | —   | —                                 | —            |
| Non-executive directors                      |                |                             |  |   |                                   |              |
| - James Gordon Mitchell <sup>(2)</sup> ..... | —              | —                           | —  | —   | —                                 | —            |
| - Lin Haifeng <sup>(1)</sup> .....           | —              | —                           | —  | —   | —                                 | —            |
| - Cheng Wu <sup>(1)</sup> .....              | —              | —                           | —  | —   | —                                 | —            |
| - Yang Xiang Dong <sup>(3)</sup> ..          | —              | —                           | —  | —   | —                                 | —            |
|  | <u>—</u>       | <u>2,395</u>                | <u>26</u>                                | <u>43</u>   | <u>—</u>                          | <u>2,464</u> |

The remuneration of each director of the Company paid/payable by the Group for the year ended December 31, 2015 are set out as follows:

|   | Director's fee | Salaries,<br>wages and<br>bonuses | Pension<br>costs-<br>defined<br>contribution<br>plan | Other social<br>security<br>costs,<br>housing<br>benefits and<br>other<br>employee<br>benefits | Share-based<br>compensation<br>expenses | Total   |
|---|----------------|-----------------------------------|--|--|---|---------|
|   | RMB'000        | RMB'000                           | RMB'000  | RMB'000  | RMB'000                                 | RMB'000 |
| Executive directors                             |                |                                   |  |  |   |         |
| - Wu Wenhui <sup>(1)</sup> .....                | —              | 2,647                             | 43   | 67   | —                                       | 2,757   |
| - Liang Xiaodong <sup>(1)</sup> ....            | —              | —                                 | —  | —  | 28,717                                  | 28,717  |
| Non-executive<br>directors                      |                |                                   |  |  |   |         |
| - James Gordon<br>Mitchell <sup>(2)</sup> ..... | —              | —                                 | —  | —  | —                                       | —       |
| - Lin Haifeng <sup>(1)</sup> .....              | —              | —                                 | —  | —  | —                                       | —       |
| - Cheng Wu <sup>(1)</sup> .....                 | —              | —                                 | —  | —  | —                                       | —       |
| - Yang Xiang Dong <sup>(3)</sup> ..             | —              | —                                 | —  | —  | —                                       | —       |
|   | —              | 2,647                             | 43   | 67   | 28,717                                  | 31,474  |

The remuneration of each director of the Company paid/payable by the Group for the year ended December 31, 2016 are set out as follows:

|   | Director's fee | Salaries,<br>wages and<br>bonuses | Pension<br>costs-<br>defined<br>contribution<br>plan | Other social<br>security<br>costs,<br>housing<br>benefits and<br>other<br>employee<br>benefits | Share-based<br>compensation<br>expenses | Total   |
|---|----------------|-----------------------------------|--|--|---|---------|
|   | RMB'000        | RMB'000                           | RMB'000  | RMB'000  | RMB'000                                 | RMB'000 |
| Executive directors                             |                |                                   |  |  |   |         |
| - Wu Wenhui <sup>(1)</sup> .....                | —              | 3,822                             | 45   | 67   | —                                       | 3,934   |
| - Liang Xiaodong <sup>(1)</sup> ....            | —              | —                                 | —  | —  | 17,098                                  | 17,098  |
| Non-executive<br>directors .....                |                |                                   |  |  |   |         |
| - James Gordon<br>Mitchell <sup>(2)</sup> ..... | —              | —                                 | —  | —  | —                                       | —       |
| - Lin Haifeng <sup>(1)</sup> .....              | —              | —                                 | —  | —  | —                                       | —       |
| - Cheng Wu <sup>(1)</sup> .....                 | —              | —                                 | —  | —  | —                                       | —       |
| - Yang Xiang Dong <sup>(3)</sup> ..             | —              | —                                 | —  | —  | —                                       | —       |
|   | —              | 3,822                             | 45   | 67   | 17,098                                  | 21,032  |

The remuneration of each director of the Company paid/payable by the Group for the six months ended June 30, 2016 are set out as follows:

|  | Director's fee | Salaries, wages and bonuses | Pension costs-defined contribution plan | Other social security costs, housing benefits and other employee benefits | Share-based compensation expenses | Total   |
|--|----------------|-----------------------------|---|---|-----------------------------------|---------|
|  | RMB'000        | RMB'000                     | RMB'000                                 | RMB'000   | RMB'000                           | RMB'000 |
| <b>(Unaudited)</b>                           |                |                             |   |   |                                   |         |
| Executive directors .....                    |                |                             |   |   |                                   |         |
| - Wu Wenhui <sup>(1)</sup> .....             | —              | 1,323                       | 22                                      | 33  | —                                 | 1,378   |
| - Liang Xiaodong <sup>(1)</sup> ....         | —              | —                           | —                                       | —   | 8,469                             | 8,469   |
| Non-executive directors .....                |                |                             |   |   |                                   |         |
| - James Gordon Mitchell <sup>(2)</sup> ..... | —              | —                           | —                                       | —   | —                                 | —       |
| - Lin Haifeng <sup>(1)</sup> .....           | —              | —                           | —                                       | —   | —                                 | —       |
| - Cheng Wu <sup>(1)</sup> .....              | —              | —                           | —                                       | —   | —                                 | —       |
| - Yang Xiang Dong <sup>(3)</sup> ..          | —              | —                           | —                                       | —   | —                                 | —       |
|  | —              | 1,323                       | 22                                      | 33  | 8,469                             | 9,847   |

The remuneration of each director of the Company paid/payable by the Group for the six months ended June 30, 2017 are set out as follows:

|  | Director's fee | Salaries, wages and bonuses | Pension costs-defined contribution plan | Other social security costs, housing benefits and other employee benefits | Share-based compensation expenses | Total   |
|--|----------------|-----------------------------|---|---|-----------------------------------|---------|
|  | RMB'000        | RMB'000                     | RMB'000                                 | RMB'000   | RMB'000                           | RMB'000 |
| Executive directors .....                    |                |                             |   |   |                                   |         |
| - Wu Wenhui <sup>(1)</sup> .....             | —              | 1,522                       | 23                                      | 34  | —                                 | 1,579   |
| - Liang Xiaodong <sup>(1)</sup> ....         | —              | —                           | —                                       | —   | 5,380                             | 5,380   |
| Non-executive directors .....                |                |                             |   |   |                                   |         |
| - James Gordon Mitchell <sup>(2)</sup> ..... | —              | —                           | —                                       | —   | —                                 | —       |
| - Lin Haifeng <sup>(1)</sup> .....           | —              | —                           | —                                       | —   | —                                 | —       |
| - Cheng Wu <sup>(1)</sup> .....              | —              | —                           | —                                       | —   | —                                 | —       |
| - Yang Xiang Dong <sup>(3)</sup> ..          | —              | —                           | —                                       | —   | —                                 | —       |
|  | —              | 1,522                       | 23                                      | 34  | 5,380                             | 6,959   |

## Notes:

- (1) Appointed as a director of the Company on November 6, 2014.  
(2) Appointed as a director of the Company on June 29, 2017.  
(3) Appointed as a director of the Company on May 9, 2016.

## 9 Other gains/(losses), net

|   | Year ended December 31, |              |                | Six months ended June 30, |               |
|---|-------------------------|--------------|----------------|---------------------------|---------------|
|   | 2014                    | 2015         | 2016           | 2016                      | 2017          |
|   | RMB'000                 | RMB'000      | RMB'000        | RMB'000                   | RMB'000       |
|   |                         |              |                | (Unaudited)               |               |
| Gain/(loss) on disposals of subsidiaries (Note 25).....   | —                       | —            | (746)          | —                         | 60,888        |
| Gain on redemption of convertible bonds (Note 29) ....  | —                       | —            | 92,207         | 92,207                    | —             |
| Government subsidies .....  | —                       | 47,226       | 48,252         | 31,800                    | 3,346         |
| Fair value gain of investment in redeemable shares of an associate (Note 19) .....  | —                       | 26,766       | 32,500         | 13,992                    | 5,492         |
| Interest income on investments and loans receivable .....   | —                       | 4,905        | 14,861         | 6,564                     | 7,500         |
| Fair value gain on financial assets at fair value through profit or loss (Note 27) .....  | 23                      | 11,773       | 11,594         | 3,859                     | 4,588         |
| Gain on copyright infringements .   | —                       | 14,773       | 7,128          | —                         | 9,294         |
| Fair value gain of consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests (Note 33) ..... | —                       | 5,778        | —              | —                         | —             |
| Fair value loss of convertible bonds (Note 29) .....  | —                       | (84,837)     | —              | —                         | —             |
| Impairment loss of intangible assets (Note 16) .....  | —                       | (5,700)      | (49,000)       | —                         | (51,200)      |
| Foreign exchange gain/(loss).....   | —                       | (13,957)     | (19,622)       | (6,276)                   | 7,592         |
| Others .....  | (152)                   | 136          | (3,258)        | (1,570)                   | 3,174         |
|   | <u>(129)</u>            | <u>6,863</u> | <u>133,916</u> | <u>140,576</u>            | <u>50,674</u> |

## 10 Finance costs

|   | Year ended December 31, |               |               | Six months ended June 30, |               |
|---|-------------------------|---------------|---------------|---------------------------|---------------|
|   | 2014                    | 2015          | 2016          | 2016                      | 2017          |
|   | RMB'000                 | RMB'000       | RMB'000       | RMB'000                   | RMB'000       |
|   |                         |               |               | (Unaudited)               |               |
| Interest expense .....                                    | 172                     | 13,004        | 22,910        | 10,348                    | 17,426        |
| Accretion charges of put option liability (Note 30) ..... | —                       | 3,877         | 4,182         | 2,055                     | 2,153         |
| Guarantee expense .....                                   | —                       | —             | —             | —                         | 859           |
|   | <u>172</u>              | <u>16,881</u> | <u>27,092</u> | <u>12,403</u>             | <u>20,438</u> |

## 11 Finance income

|                                  | Year ended December 31, |              |              | Six months ended June 30, |               |
|----------------------------------|-------------------------|--------------|--------------|---------------------------|---------------|
|                                  | 2014                    | 2015         | 2016         | 2016                      | 2017          |
|                                  | RMB'000                 | RMB'000      | RMB'000      | RMB'000                   | RMB'000       |
|                                  |                         |              |              | (Unaudited)               |               |
| Interest income on bank deposits | <u>309</u>              | <u>1,654</u> | <u>3,939</u> | <u>2,047</u>              | <u>12,245</u> |

## 12 Income tax expense

(i) *Cayman Islands corporate income tax ("CIT")*

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

(ii) *Hong Kong profits tax*

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

(iii) *PRC corporate income tax*

CIT 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 years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 according to the applicable CIT Law.

|                                   | Year ended December 31, |               |              | Six months ended June 30, |               |
|-----------------------------------|-------------------------|---------------|--------------|---------------------------|---------------|
|                                   | 2014                    | 2015          | 2016         | 2016                      | 2017          |
|                                   | RMB'000                 | RMB'000       | RMB'000      | RMB'000                   | RMB'000       |
|                                   |                         |               |              | (Unaudited)               |               |
| Current tax .....                 | 37,020                  | 32,162        | 35,204       | 14,881                    | 45,613        |
| Deferred income tax (Note 22) ... | (11,774)                | 4,855         | (27,246)     | (7,636)                   | (15,411)      |
| Income tax expense .....          | <u>25,246</u>           | <u>37,017</u> | <u>7,958</u> | <u>7,245</u>              | <u>30,202</u> |

The tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, being the tax rate of the major subsidiaries of the Group. The difference is analysed as follows:

|   | Year ended December 31, |               |              | Six months ended June 30, |               |
|---|-------------------------|---------------|--------------|---------------------------|---------------|
|   | 2014                    | 2015          | 2016         | 2016                      | 2017          |
|   | RMB'000                 | RMB'000       | RMB'000      | RMB'000                   | RMB'000       |
|   |                         |               |              | (Unaudited)               |               |
| Profit/(loss) before income tax ....  | 4,116                   | (317,142)     | 38,318       | 4,864                     | 243,691       |
| Share of profit of investments<br>accounted for using equity<br>method .....                    | —                       | (5,845)       | (28,148)     | (10,551)                  | (29,915)      |
| Tax calculated at a tax rate of<br>25% .....  | 1,029                   | (80,747)      | 2,543        | (1,422)                   | 53,444        |
| Effects of preferential tax rates<br>applicable to different<br>subsidiaries of the Group ..... | —                       | (7,850)       | (60)         | 8,292                     | (34,217)      |
| Unrecognized deferred income<br>tax assets .....  | 400                     | 72,080        | 16,486       | 18,454                    | 8,824         |
| Non-deductible expenses less<br>non-taxable income .....  | 23,817                  | 60,027        | 1,523        | (13,644)                  | 8,341         |
| Research and development tax<br>credit .....  | —                       | (6,493)       | (12,534)     | (4,435)                   | (6,190)       |
| Income tax expense .....  | <u>25,246</u>           | <u>37,017</u> | <u>7,958</u> | <u>7,245</u>              | <u>30,202</u> |



## 13 Earnings/(loss) per share

- (a) Basic earnings or loss per share for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017 are calculated by dividing the profit or loss attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the periods.

|   | Year ended December 31, |                |                | Six months ended June 30, |                |
|---|-------------------------|----------------|----------------|---------------------------|----------------|
|   | 2014                    | 2015           | 2016           | 2016                      | 2017           |
|   | RMB'000                 | RMB'000        | RMB'000        | RMB'000                   | RMB'000        |
| Net profit/(loss) attributable to the equity holders of the Company ..... | (21,130)                | (347,584)      | 36,683         | (106)                     | 212,020        |
| Weighted average number of ordinary shares in issue (thousand) .....      | <u>294,041</u>          | <u>666,833</u> | <u>695,443</u> | <u>690,993</u>            | <u>727,376</u> |
| Basic earnings/(loss) per share (expressed in RMB per share) .            | <u>(0.07)</u>           | <u>(0.52)</u>  | <u>0.05</u>    | <u>(0.00)</u>             | <u>0.29</u>    |

- (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.

As the Group incurred losses for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016 are same as basic loss per share of respective years/period.

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

For the six months ended June 30, 2017, the Company has the dilutive potential ordinary shares of RSUs granted to employees. As of June 30, 2017, the contingent event had not taken place, so RSUs are not included in the computation of diluted earnings per share.

**APPENDIX I**
**ACCOUNTANT'S REPORT**

|   | Year ended December 31, |               |               | Six months ended June 30, |             |
|---|-------------------------|---------------|---------------|---------------------------|-------------|
|   | 2014                    | 2015          | 2016          | 2016                      | 2017        |
|   | RMB'000                 | RMB'000       | RMB'000       | RMB'000                   | RMB'000     |
|   |                         |               |               | (Unaudited)               |             |
| Net profit/(loss) attributable to the equity holders of the Company .....               | (21,130)                | (347,584)     | 36,683        | (106)                     | 212,020     |
| Less: Gain on redemption of convertible bonds .....                                     | —                       | —             | (92,207)      | —                         | —           |
| Net profit/(loss) used to determine diluted earnings/(loss) per share .....             | (21,130)                | (347,584)     | (55,524)      | (106)                     | 212,020     |
| Weighted average number of ordinary shares in issue (thousands) .....                   | 294,041                 | 666,833       | 695,443       | 690,993                   | 727,376     |
| Adjustments for convertible bonds (thousands) .....                                     | —                       | —             | 11,729        | —                         | —           |
| Weighted average number of ordinary shares for diluted loss per share (thousands) ..... | 294,041                 | 666,833       | 707,172       | 690,993                   | 727,376     |
| Diluted earnings/(loss) per share (RMB) .....   | <u>(0.07)</u>           | <u>(0.52)</u> | <u>(0.08)</u> | <u>(0.00)</u>             | <u>0.29</u> |

**14 Dividends**

No dividends have been paid or declared by the Company during each of the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017.

**15 Property, plant and equipment**

|                                       | Computer equipment | Leasehold improvements | Furniture and fixtures | Motor vehicles | Construction in progress | Total         |
|---------------------------------------|--------------------|------------------------|------------------------|----------------|--------------------------|---------------|
|                                       | RMB'000            | RMB'000                | RMB'000                | RMB'000        | RMB'000                  | RMB'000       |
| <b>Cost:</b>                          |                    |                        |                        |                |                          |               |
| At January 1, 2014 .....              | —                  | —                      | —                      | —              | —                        | —             |
| Additions .....                       | 1,509              | 1,188                  | 458                    | —              | 531                      | 3,686         |
| Business combinations (Note 39) ..... | 21,812             | 3,363                  | 810                    | 815            | —                        | 26,800        |
| At December 31, 2014 ..               | <u>23,321</u>      | <u>4,551</u>           | <u>1,268</u>           | <u>815</u>     | <u>531</u>               | <u>30,486</u> |

|  | Computer<br>equipment | Leasehold<br>improvements | Furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total    |
|--|-----------------------|---------------------------|---------------------------|-------------------|-----------------------------|----------|
|  | RMB'000               | RMB'000                   | RMB'000                   | RMB'000           | RMB'000                     | RMB'000  |
| <b>Accumulated depreciation:</b>                   |                       |                           |                           |                   |                             |          |
| At January 1, 2014 .....                           | —                     | —                         | —                         | —                 | —                           | —        |
| Depreciation .....                                 | (346)                 | (956)                     | (107)                     | —                 | —                           | (1,409)  |
| At December 31, 2014 ..                            | (346)                 | (956)                     | (107)                     | —                 | —                           | (1,409)  |
| <b>Net carrying amount:</b>                        |                       |                           |                           |                   |                             |          |
| At January 1, 2014 .....                           | —                     | —                         | —                         | —                 | —                           | —        |
| At December 31, 2014 ..                            | 22,975                | 3,595                     | 1,161                     | 815               | 531                         | 29,077   |
| <b>Cost:</b>                                       |                       |                           |                           |                   |                             |          |
| At January 1, 2015 .....                           | 23,321                | 4,551                     | 1,268                     | 815               | 531                         | 30,486   |
| Additions .....                                    | 15,507                | 4,031                     | 1,577                     | 156               | —                           | 21,271   |
| Disposals .....                                    | (1,194)               | (26)                      | (98)                      | —                 | —                           | (1,318)  |
| Transfer from<br>construction in<br>progress ..... | —                     | 531                       | —                         | —                 | (531)                       | —        |
| Business combinations<br>(Note 39) .....           | 79                    | —                         | 38                        | —                 | —                           | 117      |
| At December 31, 2015 ..                            | 37,713                | 9,087                     | 2,785                     | 971               | —                           | 50,556   |
| <b>Accumulated depreciation:</b>                   |                       |                           |                           |                   |                             |          |
| At January 1, 2015 .....                           | (346)                 | (956)                     | (107)                     | —                 | —                           | (1,409)  |
| Depreciation .....                                 | (8,554)               | (2,826)                   | (738)                     | (166)             | —                           | (12,284) |
| Disposals .....                                    | 408                   | 1                         | 98                        | —                 | —                           | 507      |
| At December 31, 2015 ..                            | (8,492)               | (3,781)                   | (747)                     | (166)             | —                           | (13,186) |
| <b>Net carrying amount:</b>                        |                       |                           |                           |                   |                             |          |
| At January 1, 2015 .....                           | 22,975                | 3,595                     | 1,161                     | 815               | 531                         | 29,077   |
| At December 31, 2015 ..                            | 29,221                | 5,306                     | 2,038                     | 805               | —                           | 37,370   |
| <b>Cost:</b>                                       |                       |                           |                           |                   |                             |          |
| At January 1, 2016 .....                           | 37,713                | 9,087                     | 2,785                     | 971               | —                           | 50,556   |
| Additions .....                                    | 9,423                 | 1,694                     | 317                       | 207               | 11,593                      | 23,234   |
| Disposals .....                                    | (8,691)               | (758)                     | (615)                     | (76)              | —                           | (10,140) |
| Transfer to disposal<br>group (Note 25) .....      | (323)                 | —                         | (9)                       | —                 | —                           | (332)    |
| Disposal of a subsidiary                           | (27)                  | —                         | (12)                      | —                 | —                           | (39)     |
| At December 31, 2016 ..                            | 38,095                | 10,023                    | 2,466                     | 1,102             | 11,593                      | 63,279   |

|  | Computer<br>equipment | Leasehold<br>improvements | Furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total           |
|--|-----------------------|---------------------------|---------------------------|-------------------|-----------------------------|-----------------|
|  | RMB'000               | RMB'000                   | RMB'000                   | RMB'000           | RMB'000                     | RMB'000         |
| <b>Accumulated depreciation:</b>             |                       |                           |                           |                   |                             |                 |
| At January 1, 2016 .....                     | (8,492)               | (3,781)                   | (747)                     | (166)             | —                           | (13,186)        |
| Depreciation .....                           | (9,821)               | (3,791)                   | (794)                     | (125)             | —                           | (14,531)        |
| Disposals .....                              | 8,343                 | 425                       | 523                       | 46                | —                           | 9,337           |
| Transfer to disposal<br>group (Note 25)..... | 86                    | —                         | 7                         | —                 | —                           | 93              |
| Disposal of a subsidiary                     | <u>17</u>             | <u>—</u>                  | <u>9</u>                  | <u>—</u>          | <u>—</u>                    | <u>26</u>       |
| At December 31, 2016 ..                      | <u>(9,867)</u>        | <u>(7,147)</u>            | <u>(1,002)</u>            | <u>(245)</u>      | <u>—</u>                    | <u>(18,261)</u> |
| <b>Net carrying amount:</b>                  |                       |                           |                           |                   |                             |                 |
| At January 1, 2016 .....                     | <u>29,221</u>         | <u>5,306</u>              | <u>2,038</u>              | <u>805</u>        | <u>—</u>                    | <u>37,370</u>   |
| At December 31, 2016 ..                      | <u>28,228</u>         | <u>2,876</u>              | <u>1,464</u>              | <u>857</u>        | <u>11,593</u>               | <u>45,018</u>   |
|  | Computer<br>equipment | Leasehold<br>improvements | Furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total           |
|  | RMB'000               | RMB'000                   | RMB'000                   | RMB'000           | RMB'000                     | RMB'000         |
| <b>(Unaudited)</b>                           |                       |                           |                           |                   |                             |                 |
| <b>Cost:</b>                                 |                       |                           |                           |                   |                             |                 |
| At January 1, 2016 .....                     | 37,713                | 9,087                     | 2,785                     | 971               | —                           | 50,556          |
| Additions .....                              | 3,558                 | 1,596                     | 310                       | —                 | —                           | 5,464           |
| Disposals .....                              | <u>(4,201)</u>        | <u>(758)</u>              | <u>(251)</u>              | <u>—</u>          | <u>—</u>                    | <u>(5,210)</u>  |
| At June 30, 2016 .....                       | <u>37,070</u>         | <u>9,925</u>              | <u>2,844</u>              | <u>971</u>        | <u>—</u>                    | <u>50,810</u>   |
| <b>Accumulated depreciation:</b>             |                       |                           |                           |                   |                             |                 |
| At January 1, 2016 .....                     | (8,492)               | (3,781)                   | (747)                     | (166)             | —                           | (13,186)        |
| Depreciation .....                           | (5,012)               | (1,897)                   | (396)                     | (46)              | —                           | (7,351)         |
| Disposals .....                              | <u>4,171</u>          | <u>425</u>                | <u>217</u>                | <u>—</u>          | <u>—</u>                    | <u>4,813</u>    |
| At June 30, 2016 .....                       | <u>(9,333)</u>        | <u>(5,253)</u>            | <u>(926)</u>              | <u>(212)</u>      | <u>—</u>                    | <u>(15,724)</u> |
| <b>Net carrying amount:</b>                  |                       |                           |                           |                   |                             |                 |
| At January 1, 2016 .....                     | <u>29,221</u>         | <u>5,306</u>              | <u>2,038</u>              | <u>805</u>        | <u>—</u>                    | <u>37,370</u>   |
| At June 30, 2016 .....                       | <u>27,737</u>         | <u>4,672</u>              | <u>1,918</u>              | <u>759</u>        | <u>—</u>                    | <u>35,086</u>   |

**APPENDIX I**
**ACCOUNTANT'S REPORT**

|   | Computer<br>equipment | Leasehold<br>improvements | Furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total           |
|---|-----------------------|---------------------------|---------------------------|-------------------|-----------------------------|-----------------|
|   | RMB'000               | RMB'000                   | RMB'000                   | RMB'000           | RMB'000                     | RMB'000         |
| <b>Cost:</b>                                      |                       |                           |                           |                   |                             |                 |
| At January 1, 2017 .....                          | 38,095                | 10,023                    | 2,466                     | 1,102             | 11,593                      | 63,279          |
| Additions .....                                   | 2,486                 | 381                       | 254                       | 1,844             | 6,933                       | 11,898          |
| Disposals .....                                   | (643)                 | (3,564)                   | (66)                      | —                 | —                           | (4,273)         |
| Transfer from<br>construction in<br>progress..... | —                     | 15,974                    | 2,552                     | —                 | (18,526)                    | —               |
| Disposal of subsidiaries                          | —                     | —                         | —                         | (141)             | —                           | (141)           |
| At June 30, 2017 .....                            | <u>39,938</u>         | <u>22,814</u>             | <u>5,206</u>              | <u>2,805</u>      | <u>—</u>                    | <u>70,763</u>   |
| <b>Accumulated<br/>depreciation:</b>              |                       |                           |                           |                   |                             |                 |
| At January 1, 2017 .....                          | (9,867)               | (7,147)                   | (1,002)                   | (245)             | —                           | (18,261)        |
| Depreciation .....                                | (9,993)               | (2,936)                   | (600)                     | (159)             | —                           | (13,688)        |
| Disposals .....                                   | 620                   | 3,374                     | 57                        | —                 | —                           | 4,051           |
| Disposal of subsidiaries                          | —                     | —                         | —                         | 116               | —                           | 116             |
| At June 30, 2017 .....                            | <u>(19,240)</u>       | <u>(6,709)</u>            | <u>(1,545)</u>            | <u>(288)</u>      | <u>—</u>                    | <u>(27,782)</u> |
| <b>Net carrying amount:</b>                       |                       |                           |                           |                   |                             |                 |
| At January 1, 2017 .....                          | <u>28,228</u>         | <u>2,876</u>              | <u>1,464</u>              | <u>857</u>        | <u>11,593</u>               | <u>45,018</u>   |
| At June 30, 2017 .....                            | <u>20,698</u>         | <u>16,105</u>             | <u>3,661</u>              | <u>2,517</u>      | <u>—</u>                    | <u>42,981</u>   |

Depreciation expense of approximately RMB32,000, RMB659,000, RMB909,000, RMB496,000 and RMB350,000 has been charged in “cost of revenues”, approximately RMB130,000, RMB964,000, RMB1,283,000, RMB622,000 and RMB765,000 has been charged in “selling and marketing expenses” and approximately RMB1,247,000, RMB10,661,000, RMB12,339,000, RMB6,233,000 and RMB12,573,000 has been charged in “general and administrative expenses” for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

## 16 Intangible assets

|                                  | Distribution |            |                        |                    |                                   |                        |          |              |         |         | Total     |
|----------------------------------|--------------|------------|------------------------|--------------------|-----------------------------------|------------------------|----------|--------------|---------|---------|-----------|
|                                  | Goodwill     | Trademarks | Copyrights of contents | Writers' contracts | Distribution channel relationship | Customers relationship | Software | Domain names | RMB'000 |         |           |
|                                  | RMB'000      | RMB'000    | RMB'000                | RMB'000            | RMB'000                           | RMB'000                | RMB'000  | RMB'000      | RMB'000 | RMB'000 | RMB'000   |
| <b>Cost:</b>                     |              |            |                        |                    |                                   |                        |          |              |         |         |           |
| At January 1, 2014.....          | —            | —          | —                      | —                  | —                                 | —                      | —        | —            | —       | —       | —         |
| Additions .....                  | —            | 1,247      | 46,478                 | —                  | —                                 | —                      | 76       | 4,370        | —       | —       | 52,171    |
| Business combinations (Note 39)  | 3,715,659    | 657,357    | 177,918                | 110,000            | 192,327                           | 12,200                 | 7,757    | 1,922        | —       | —       | 4,875,140 |
| At December 31, 2014 .....       | 3,715,659    | 658,604    | 224,396                | 110,000            | 192,327                           | 12,200                 | 7,833    | 6,292        | —       | —       | 4,927,311 |
| <b>Accumulated amortisation:</b> |              |            |                        |                    |                                   |                        |          |              |         |         |           |
| At January 1, 2014.....          | —            | —          | —                      | —                  | —                                 | —                      | —        | —            | —       | —       | —         |
| Amortisation .....               | —            | (852)      | (17,362)               | —                  | (700)                             | (4,183)                | (14)     | (357)        | —       | —       | (23,468)  |
| At December 31, 2014 .....       | —            | (852)      | (17,362)               | —                  | (700)                             | (4,183)                | (14)     | (357)        | —       | —       | (23,468)  |
| <b>Net carrying amount:</b>      |              |            |                        |                    |                                   |                        |          |              |         |         |           |
| At January 1, 2014.....          | —            | —          | —                      | —                  | —                                 | —                      | —        | —            | —       | —       | —         |
| At December 31, 2014 .....       | 3,715,659    | 657,752    | 207,034                | 110,000            | 191,627                           | 8,017                  | 7,819    | 5,935        | —       | —       | 4,903,843 |

|                                  | Distribution |            |                        |                    |                                   |                        |          |              |           |         | Total   |
|----------------------------------|--------------|------------|------------------------|--------------------|-----------------------------------|------------------------|----------|--------------|-----------|---------|---------|
|                                  | Goodwill     | Trademarks | Copyrights of contents | Writers' contracts | Distribution channel relationship | Customers relationship | Software | Domain names | RMB'000   |         |         |
|                                  | RMB'000      | RMB'000    | RMB'000                | RMB'000            | RMB'000                           | RMB'000                | RMB'000  | RMB'000      | RMB'000   | RMB'000 | RMB'000 |
| <b>Cost:</b>                     |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2015 .....         | 3,715,659    | 658,604    | 224,396                | 110,000            | 192,327                           | 12,200                 | 7,833    | 6,292        | 4,927,311 |         |         |
| Additions .....                  | —            | —          | 126,671                | —                  | —                                 | —                      | 6,493    | —            | 133,164   |         |         |
| Business combinations (Note 39)  | 10,776       | —          | —                      | —                  | —                                 | —                      | —        | —            | 10,776    |         |         |
| At December 31, 2015 .....       | 3,726,435    | 658,604    | 351,067                | 110,000            | 192,327                           | 12,200                 | 14,326   | 6,292        | 5,071,251 |         |         |
| <b>Accumulated amortisation:</b> |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2015 .....         | —            | (852)      | (17,362)               | —                  | (700)                             | (4,183)                | (14)     | (357)        | (23,468)  |         |         |
| Amortisation .....               | —            | (33,578)   | (129,817)              | (14,667)           | (28,873)                          | (6,274)                | (7,235)  | (1,010)      | (221,454) |         |         |
| At December 31, 2015 .....       | —            | (34,430)   | (147,179)              | (14,667)           | (29,573)                          | (10,457)               | (7,249)  | (1,367)      | (244,922) |         |         |
| <b>Impairment:</b>               |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2015 .....         | —            | —          | —                      | —                  | —                                 | —                      | —        | —            | —         |         |         |
| Additions .....                  | —            | (5,700)    | —                      | —                  | —                                 | —                      | —        | —            | (5,700)   |         |         |
| At December 31, 2015 .....       | —            | (5,700)    | —                      | —                  | —                                 | —                      | —        | —            | (5,700)   |         |         |
| <b>Net carrying amount:</b>      |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2015 .....         | 3,715,659    | 657,752    | 207,034                | 110,000            | 191,627                           | 8,017                  | 7,819    | 5,935        | 4,903,843 |         |         |
| At December 31, 2015 .....       | 3,726,435    | 618,474    | 203,888                | 95,333             | 162,754                           | 1,743                  | 7,077    | 4,925        | 4,820,629 |         |         |



|   | Distribution |            |                        |                    |                                   |                        |          |              |           |         | Total   |         |
|---|--------------|------------|------------------------|--------------------|-----------------------------------|------------------------|----------|--------------|-----------|---------|---------|---------|
|   | Goodwill     | Trademarks | Copyrights of contents | Writers' contracts | Distribution channel relationship | Customers relationship | Software | Domain names | RMB'000   |         |         |         |
|   | RMB'000      | RMB'000    | RMB'000                | RMB'000            | RMB'000                           | RMB'000                | RMB'000  | RMB'000      | RMB'000   | RMB'000 | RMB'000 | RMB'000 |
| <b>Cost:</b>                              |              |            |                        |                    |                                   |                        |          |              |           |         |         |         |
| At January 1, 2016 .....                  | 3,726,435    | 658,604    | 351,067                | 110,000            | 192,327                           | 12,200                 | 14,326   | 6,292        | 5,071,251 |         |         |         |
| Additions .....                           | —            | —          | 112,626                | —                  | —                                 | —                      | 605      | —            | 113,231   |         |         |         |
| Transfer to disposal group (Note 25)..... | (9,622)      | —          | —                      | —                  | —                                 | —                      | (81)     | —            | (9,703)   |         |         |         |
| Disposal of a subsidiary .....            | (1,154)      | —          | —                      | —                  | —                                 | —                      | —        | —            | (1,154)   |         |         |         |
| At December 31, 2016 .....                | 3,715,659    | 658,604    | 463,693                | 110,000            | 192,327                           | 12,200                 | 14,850   | 6,292        | 5,173,625 |         |         |         |
| <b>Accumulated amortisation:</b>          |              |            |                        |                    |                                   |                        |          |              |           |         |         |         |
| At January 1, 2016 .....                  | —            | (34,430)   | (147,179)              | (14,667)           | (29,573)                          | (10,457)               | (7,249)  | (1,367)      | (244,922) |         |         |         |
| Amortisation .....                        | —            | (32,000)   | (112,400)              | (14,667)           | (28,873)                          | (574)                  | (2,779)  | (1,171)      | (192,464) |         |         |         |
| Transfer to disposal group (Note 25)..... | —            | —          | —                      | —                  | —                                 | —                      | 1        | —            | 1         |         |         |         |
| At December 31, 2016 .....                | —            | (66,430)   | (259,579)              | (29,334)           | (58,446)                          | (11,031)               | (10,027) | (2,538)      | (437,385) |         |         |         |
| <b>Impairment:</b>                        |              |            |                        |                    |                                   |                        |          |              |           |         |         |         |
| At January 1, 2016 .....                  | —            | (5,700)    | —                      | —                  | —                                 | —                      | —        | —            | (5,700)   |         |         |         |
| Additions .....                           | —            | —          | —                      | —                  | (49,000)                          | —                      | —        | —            | (49,000)  |         |         |         |
| At December 31, 2016 .....                | —            | (5,700)    | —                      | —                  | (49,000)                          | —                      | —        | —            | (54,700)  |         |         |         |
| <b>Net carrying amount:</b>               |              |            |                        |                    |                                   |                        |          |              |           |         |         |         |
| At January 1, 2016 .....                  | 3,726,435    | 618,474    | 203,888                | 95,333             | 162,754                           | 1,743                  | 7,077    | 4,925        | 4,820,629 |         |         |         |
| At December 31, 2016 .....                | 3,715,659    | 586,474    | 204,114                | 80,666             | 84,881                            | 1,169                  | 4,823    | 3,754        | 4,681,540 |         |         |         |

|                                   | Goodwill  | Trademarks | Copyrights of contents | Writers' contracts | Distribution channel relationship | Customers relationship | Software | Domain names | Total     |
|-----------------------------------|-----------|------------|------------------------|--------------------|-----------------------------------|------------------------|----------|--------------|-----------|
|                                   | RMB'000   | RMB'000    | RMB'000                | RMB'000            | RMB'000                           | RMB'000                | RMB'000  | RMB'000      | RMB'000   |
| <b>(Unaudited)</b>                |           |            |                        |                    |                                   |                        |          |              |           |
| <b>Cost:</b>                      |           |            |                        |                    |                                   |                        |          |              |           |
| At January 1, 2016 .....          | 3,726,435 | 658,604    | 351,067                | 110,000            | 192,327                           | 12,200                 | 14,326   | 6,292        | 5,071,251 |
| Additions .....                   | —         | —          | 62,599                 | —                  | —                                 | —                      | 382      | —            | 62,981    |
| At June 30, 2016 .....            | 3,726,435 | 658,604    | 413,666                | 110,000            | 192,327                           | 12,200                 | 14,708   | 6,292        | 5,134,232 |
| <b>Accumulated amortisation:</b>  |           |            |                        |                    |                                   |                        |          |              |           |
| At January 1, 2016 .....          | —         | (34,430)   | (147,179)              | (14,667)           | (29,573)                          | (10,457)               | (7,249)  | (1,367)      | (244,922) |
| Amortisation .....                | —         | (16,000)   | (62,329)               | (7,333)            | (14,437)                          | (287)                  | (1,179)  | (585)        | (102,150) |
| At June 30, 2016 .....            | —         | (50,430)   | (209,508)              | (22,000)           | (44,010)                          | (10,744)               | (8,428)  | (1,952)      | (347,072) |
| <b>Impairment:</b>                |           |            |                        |                    |                                   |                        |          |              |           |
| At January 1 and June 30, 2016 .. | —         | (5,700)    | —                      | —                  | —                                 | —                      | —        | —            | (5,700)   |
| <b>Net carrying amount:</b>       |           |            |                        |                    |                                   |                        |          |              |           |
| At January 1, 2016 .....          | 3,726,435 | 618,474    | 203,888                | 95,333             | 162,754                           | 1,743                  | 7,077    | 4,925        | 4,820,629 |
| At June 30, 2016 .....            | 3,726,435 | 602,474    | 204,158                | 88,000             | 148,317                           | 1,456                  | 6,280    | 4,340        | 4,781,460 |

|                                  | Distribution |            |                        |                    |                                   |                        |          |              |           |         | Total   |
|----------------------------------|--------------|------------|------------------------|--------------------|-----------------------------------|------------------------|----------|--------------|-----------|---------|---------|
|                                  | Goodwill     | Trademarks | Copyrights of contents | Writers' contracts | Distribution channel relationship | Customers relationship | Software | Domain names | RMB'000   |         |         |
|                                  | RMB'000      | RMB'000    | RMB'000                | RMB'000            | RMB'000                           | RMB'000                | RMB'000  | RMB'000      | RMB'000   | RMB'000 | RMB'000 |
| <b>Cost:</b>                     |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2017               | 3,715,659    | 658,604    | 463,693                | 110,000            | 192,327                           | 12,200                 | 14,850   | 6,292        | 5,173,625 |         |         |
| Additions                        | —            | —          | 52,980                 | —                  | —                                 | —                      | 4,998    | 62           | 58,040    |         |         |
| Business combinations            | 4,664        | —          | —                      | —                  | —                                 | —                      | —        | —            | 4,664     |         |         |
| At June 30, 2017                 | 3,720,323    | 658,604    | 516,673                | 110,000            | 192,327                           | 12,200                 | 19,848   | 6,354        | 5,236,329 |         |         |
| <b>Accumulated amortisation:</b> |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2017               | —            | (66,430)   | (259,579)              | (29,334)           | (58,446)                          | (11,031)               | (10,027) | (2,538)      | (437,385) |         |         |
| Amortisation                     | —            | (17,916)   | (48,113)               | (7,333)            | (5,820)                           | (287)                  | (1,262)  | (331)        | (81,062)  |         |         |
| At June 30, 2017                 | —            | (84,346)   | (307,692)              | (36,667)           | (64,266)                          | (11,318)               | (11,289) | (2,869)      | (518,447) |         |         |
| <b>Impairment:</b>               |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2017               | —            | (5,700)    | —                      | —                  | (49,000)                          | —                      | —        | —            | (54,700)  |         |         |
| Additions                        | —            | —          | —                      | —                  | (51,200)                          | —                      | —        | —            | (51,200)  |         |         |
| At June 30, 2017                 | —            | (5,700)    | —                      | —                  | (100,200)                         | —                      | —        | —            | (105,900) |         |         |
| <b>Net carrying amount:</b>      |              |            |                        |                    |                                   |                        |          |              |           |         |         |
| At January 1, 2017               | 3,715,659    | 586,474    | 204,114                | 80,666             | 84,881                            | 1,169                  | 4,823    | 3,754        | 4,681,540 |         |         |
| At June 30, 2017                 | 3,720,323    | 568,558    | 208,981                | 73,333             | 27,861                            | 882                    | 8,559    | 3,485        | 4,611,982 |         |         |

Amortisation expense of approximately RMB17,790,000, RMB151,064,000, RMB128,071,000, RMB69,849,000 and RMB57,705,000 has been charged in “cost of revenues”, approximately RMB4,883,000, RMB31,925,000, RMB26,218,000, RMB13,109,000 and RMB4,492,000 has been charged in “selling and marketing expenses” and approximately RMB795,000, RMB38,465,000, RMB38,175,000, RMB19,192,000 and RMB18,865,000 has been charged in “general and administrative expenses” for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

Impairment losses of RMB5,700,000, RMB49,000,000 and RMB51,200,000 has been charged in “Other gains/(losses), net” for the years ended December 31, 2015 and 2016 and the six months ended June 30, 2017, respectively.

The goodwill balance mainly arose from the acquisition of 100% equity interests in Cloudary Corporation (“Cloudary”) and the acquisition of the entities operating online literature business through the brand of “Chuangshi” (“Chuangshi”) in 2014 and from the acquisition of 51% equity interest in Shanghai Foch Film Culture Investment Co., Ltd. (“Foch”) in 2015 (Note 39). Goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group and the amount is attributable to the Group as a whole as a CGU of the Group.

Impairment review on the goodwill of the Group has been conducted by the management as at December 31, 2015 and 2016 according to IAS 36 “Impairment of assets”. For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. Under paragraph 33(b) of IAS 36, a period longer than five years can be used if it is justifiable, and the management of the Group used a ten-year period, which takes into account the length of the post projection period for the cash flow forecast will perpetuity, and this shall be achieved by identifying a ‘steady state’ set of assumptions for the cash flows in the last year of the forecasts and applying a terminal value multiple to those cash flows. Therefore, given the Group expects to maintain an extended high growth rate over a period longer than 5 years, management of the Group considers that the Group’s business is expected to reach a steady and stable terminal growth state likely after a 10-year period of gradually declining revenue growth. While the industry expert projects industry growth for a period of five years till 2020, as the management has over 15 years’ operational experience in the online literature industry, many of whom help create the industry at its inception, the management believes they are better positioned to forecast cash flows for an extended period over and beyond 5 years. The expected annual growth rates over the ten-year forecast period are based on the Group’s past performance and management’s expectation of future market and business developments. It is also assumed that the annual grow rate will decrease steadily in the next ten years, which leads to a wide range of expected annual growth rate. As at December 31, 2015 and 2016, key assumptions for goodwill used for value-in-use calculations include annual growth rates ranged from 20% to 37% and 10% to 55%, and gross margin ranged from 36% to 55% and 46% to 49%, respectively. As at December 31, 2015 and 2016, the discount rate used of 21.9% and 22.2% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin was determined by the management based on past performance and its expectation for market development.

Based on the result of the goodwill impairment testing, the estimated recoverable amount exceeded its carrying amount by approximately RMB11,500,000,000 and RMB9,620,000,000 as of December 31, 2016 and 2015, respectively. 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. The following table shows the amount by which the assumption of annual revenue growth rate would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

| In percent               | Change required for carrying amount<br>to equal recoverable amount   |  |
|--------------------------|--|--|
|                          | 2016   | 2015   |
| Annual growth rate ..... | Assuming the annual growth rate for each year during the ten-year period decreased by 22% and shall be no less than the terminal growth rate of 3% | Assuming the annual growth rate for each year during the ten-year period decreased by 16.5% and shall be no less than the terminal growth rate of 3% |

Impairment review on the distribution channel relationship of the Group has been conducted by the management as at June 30, 2017 and December 31, 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of distribution channel relationship is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. As at June 30, 2017 and December 31, 2016, key assumptions for distribution channel relationship used for value-in-use calculations include annual growth rates ranged from 8% to 10% and 1% to 4% and operating margin ranged from 54.5% to 60% and 33% to 39%, respectively. As at June 30, 2017 and December 31, 2016, the discount rate used of 24.2% and 26.2% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross margin was determined by the management based on past performance and its expectation for future market development.

## 17 Investments accounted for using the equity method

|                      | As at December 31, |               |                | As at June 30, |
|----------------------|--------------------|---------------|----------------|----------------|
|                      | 2014               | 2015          | 2016           | 2017           |
|                      | RMB'000            | RMB'000       | RMB'000        | RMB'000        |
| Associates.....      | 4,949              | 15,050        | 72,934         | 179,033        |
| Joint ventures ..... | 40,727             | 25,443        | 54,224         | 90,659         |
|                      | <u>45,676</u>      | <u>40,493</u> | <u>127,158</u> | <u>269,692</u> |

## (a) Investments in associates

|   | As at December 31, |               |               | As at June 30, |                |
|---|--------------------|---------------|---------------|----------------|----------------|
|   | 2014               | 2015          | 2016          | 2016           | 2017           |
|   | RMB'000            | RMB'000       | RMB'000       | RMB'000        | RMB'000        |
|   |                    |               |               | (Unaudited)    |                |
| At the beginning of the<br>year/period .....        | —                  | 4,949         | 15,050        | 15,050         | 72,934         |
| Additions .....                                     | —                  | 14,472        | 61,600        | 55,001         | 103,742        |
| Business combination (Note 39) ..                   | 4,949              | —             | —             | —              | —              |
| Impairment provision .....                          | —                  | —             | (800)         | —              | —              |
| Dividend from an associate .....                    | —                  | —             | —             | —              | (781)          |
| Disposals .....                                     | —                  | —             | (3,083)       | —              | —              |
| Share of profit/(losses) of the<br>associates ..... | —                  | (4,371)       | 167           | (4,173)        | 3,138          |
| At the end of the year/period .....                 | <u>4,949</u>       | <u>15,050</u> | <u>72,934</u> | <u>65,878</u>  | <u>179,033</u> |

Set out below are the major associates of the Group as at December 31, 2014, 2015 and 2016 and June 30, 2017, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which held directly by the Group; the country of incorporation or registration is also their principal place of business.

| Name  | Date of incorporation | Particulars of issued shares held<br>(RMB'000) | Place of incorporation | Percentage of ownership interest attributable to the Group |      |      |          | Principal activities              |
|---|-----------------------|--|------------------------|--|------|------|----------|-----------------------------------|
|   |                       |  |                        | December 31,   |      |      | June 30, |                                   |
|   |                       |  |                        | 2014   | 2015 | 2016 | 2017     |                                   |
| Ningbo Yuewen Yuandongli Culture Industry Investment LLP ("Yuandongli") ... | December 23, 2015     | 30,000   | PRC                    | —  | —    | 19%  | 19%      | Culture investment fund           |
| Shannan Guangqi Studio Co., Ltd. ("Guangqi") .....                          | December 15, 2015     | 25,000   | PRC                    | —  | —    | 40%  | 40%      | Film production                   |
| Wuhan Fanyu Information Technology Co., Ltd. ("Fanyu") ...                  | June 17, 2015         | 222  | PRC                    | —  | 20%  | 20%  | 20%      | Intellectual property development |
| Shanghai Chuwan Information Technology Co., Ltd. ("Chuwan") .               | June 16, 2015         | 10,000   | PRC                    | —  | 30%  | 30%  | 30%      | Online game service               |
| Hangzhou Wawayu Animation Design Co., Ltd. ("Wawayu") .....                 | December 2, 2014      | 47,500   | PRC                    | —  | —    | —    | 24%      | Animation production              |
| Chongqing Caiseqianbi Animation Design Co., Ltd. ("Caiseqianbi") ..         | May 20, 2014          | 46,500   | PRC                    | —  | —    | —    | 25%      | Animation production              |

*Note:*

The English names of the associates represent the best effort by the Company's management to translate their Chinese names, as these associates do not have official English names.



## Summarised financial information of the Group's major associates

Set out below are the summarised financial information for Chuwan, Fanyu, Guangqi, Yuandongli, Wawayu and Caiseqianbi which are accounted for using the equity method.

|   | Chuwan       |         |          | Fanyu        |         |          | Guangqi      |         |          |         |
|---|--------------|---------|----------|--------------|---------|----------|--------------|---------|----------|---------|
|   | December 31, |         | June 30, | December 31, |         | June 30, | December 31, |         | June 30, |         |
|   | 2014         | 2015    | 2016     | 2017         | 2014    | 2015     | 2016         | 2017    | 2016     | 2017    |
|   | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000 |
| Current assets .....                    | —            | 11,005  | 7,669    | 6,000        | —       | 11,040   | 28,139       | 26,031  | —        | 62,500  |
| Non-current assets .....                | —            | —       | —        | —            | —       | —        | 18,571       | 14,787  | —        | —       |
| Current liabilities .....               | —            | 5       | 5        | 3            | —       | —        | 2,829        | 1,308   | —        | —       |
| Non-current liabilities .....           | —            | —       | —        | —            | —       | —        | —            | —       | —        | —       |
| Revenue .....                           | —            | —       | —        | —            | —       | —        | 29,964       | 33      | —        | —       |
| Profit/(loss) for the year/period ..... | —            | —       | (3,336)  | (1,667)      | —       | 40       | 22,841       | (4,371) | —        | —       |
|   |              |         |          |              |         |          |              |         |          | (133)   |
|   |              |         |          |              |         |          |              |         |          |         |
|   | Yuandongli   |         |          | Wawayu       |         |          | Caiseqianbi  |         |          |         |
|   | December 31, |         | June 30, | December 31, |         | June 30, | December 31, |         | June 30, |         |
|   | 2014         | 2015    | 2016     | 2017         | 2014    | 2015     | 2016         | 2017    | 2016     | 2017    |
|   | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000 |
| Current assets .....                    | —            | —       | 4,661    | 8,152        | —       | —        | —            | 42,093  | —        | —       |
| Non-current assets .....                | —            | —       | 163,820  | 166,434      | —       | —        | —            | 1,882   | —        | —       |
| Current liabilities .....               | —            | —       | —        | —            | —       | —        | —            | 2,096   | —        | —       |
| Non-current liabilities .....           | —            | —       | —        | —            | —       | —        | —            | —       | —        | —       |
| Revenue .....                           | —            | —       | —        | —            | —       | —        | —            | —       | —        | —       |
| Profit/(loss) for the year/period ..... | —            | —       | 10,481   | 10,219       | —       | —        | —            | —       | —        | —       |
|   |              |         |          |              |         |          |              |         |          |         |

The Group determined that it does not have a controlling financial interest in above investees, but rather possesses significant influence. The associates as listed above are private companies and there are no quoted market prices available for their shares. There are no contingent liabilities relating to the Group's interest in the associates.

According to the "Limited Partnership Agreement" of Yuandongli, the Group has been acting as general partner in Yuandongli which acts on behalf of all limited partners to assume responsibility for the general operations of the investment fund (except for using all the funds of Yuandongli to make investment in a specified portfolio company CITIC Press Corporation that agreed by general partner and all limited partners), which enable the Group to exercise significant influence in Yuandongli through the participation in operational and financial policy-making processes. Consequently, Yuandongli has been accounted for as an associate.

In October 2016, the Group transferred part of its equity interest held in Zhejiang Huayun Digital Technology Co., Ltd. ("Huayun"), being an associate of the Group, at the consideration of RMB3,100,000, and recognized a disposal gain of approximately RMB500,000 in the consolidated statements of comprehensive income or loss. With respect to the remaining 10% equity interest of Huayun that held by Group after the aforementioned transfer of equity interest, the Group recorded the investment as available-for-sale financial assets, and as at December 31, 2016, the Group made a full impairment provision of approximately RMB483,000 against the carrying amount of the investment in Huayun, which is based on the results of impairment assessment performed on the carrying amount with reference to its recoverable amount.

*Reconciliation of summarized financial information*

Reconciliation of summarized financial information presented to the carrying amount of its interest in associates.

|   | Chuwán       |         |          | Fányu        |         |          | Guàngqí      |         |          |         |
|---|--------------|---------|----------|--------------|---------|----------|--------------|---------|----------|---------|
|   | December 31, |         | June 30, | December 31, |         | June 30, | December 31, |         | June 30, |         |
|   | 2015         | 2016    | 2017     | 2014         | 2015    | 2016     | 2014         | 2015    | 2016     |         |
|   | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000      | RMB'000 | RMB'000  | RMB'000 |
| <b>Net assets at the beginning of the year/period</b> ..... | —            | 11,000  | 7,664    | —            | —       | 11,040   | 43,881       | —       | —        | 62,500  |
| Incorporation of an associate                               | —            | 11,000  | —        | —            | 11,000  | 10,000   | —            | —       | 62,500   | —       |
| Profit/(loss) for the year/period .....                     | —            | (3,336) | (1,667)  | —            | 40      | 22,841   | (4,371)      | —       | —        | (133)   |
| Dividends .....   | —            | —       | —        | —            | —       | —        | —            | —       | —        | —       |
| <b>Net assets at the end of the year/period</b> .....       | —            | 11,000  | 7,664    | —            | 11,040  | 43,881   | 39,510       | —       | 62,500   | 62,367  |
| Interest in associates .....                                | —            | 30%     | 30%      | —            | 20%     | 20%      | 20%          | —       | —        | 40%     |
| Goodwill .....  | —            | 6,700   | 6,700    | —            | —       | —        | —            | —       | —        | —       |
| Elimination of downstream transactions .....                | —            | (2,437) | (1,887)  | —            | —       | —        | —            | —       | (7,569)  | (7,547) |
| <b>Carrying value</b> .....                                 | —            | 7,563   | 7,112    | —            | 2,208   | 8,776    | 7,902        | —       | 17,431   | 17,400  |



(b) *Investments in joint ventures*

|                                     | As at December 31, |               |               | As at June 30, |               |
|-------------------------------------|--------------------|---------------|---------------|----------------|---------------|
|                                     | 2014               | 2015          | 2016          | 2016           | 2017          |
|                                     | RMB'000            | RMB'000       | RMB'000       | RMB'000        | RMB'000       |
|                                     |                    |               |               | (Unaudited)    |               |
| At the beginning of the             |                    |               |               |                |               |
| year/period .....                   | —                  | 40,727        | 25,443        | 25,443         | 54,224        |
| Business combination (Note 39) ..   | 40,727             | —             | —             | —              | —             |
| Addition .....                      | —                  | —             | —             | —              | 9,658         |
| Dividend from the joint venture ..  | —                  | (25,500)      | —             | —              | —             |
| Share of profit of the joint        |                    |               |               |                |               |
| ventures .....                      | —                  | 10,216        | 28,781        | 14,724         | 26,777        |
| At the end of the year/period ..... | <u>40,727</u>      | <u>25,443</u> | <u>54,224</u> | <u>40,167</u>  | <u>90,659</u> |

Set out below is the major joint venture of the Group as at December 31, 2014, 2015 and 2016 and June 30, 2017. The joint venture as listed below has share capital consisting solely of ordinary shares, which held directly by the Group; the country of incorporation or registration is also its principal place of business.

| Name  | Date of incorporation | Particulars of issued shares held<br>(RMB'000) | Place of incorporation | Percentage of ownership interest attributable to the Group |      |      |          | Principal activities   |
|---|-----------------------|--|------------------------|--|------|------|----------|------------------------|
|   |                       |  |                        | December 31,   |      |      | June 30, |                        |
|   |                       |  |                        | 2014   | 2015 | 2016 | 2017     |                        |
| Beijing Jinjiang Networking Technology Co., Ltd. ("Jinjiang") | March 13, 2006        | 5,550  | PRC                    | 50%  | 50%  | 50%  | 50%      | Online reading service |

**Summarised financial information of the Group's major joint venture**

Set out below is the summarised financial information for Jinjiang, which is accounted for using the equity method.

|                                  | As at December 31, |               |               | As at June 30, |
|----------------------------------|--------------------|---------------|---------------|----------------|
|                                  | 2014               | 2015          | 2016          | 2017           |
|                                  | RMB'000            | RMB'000       | RMB'000       | RMB'000        |
| Current assets .....             | 95,011             | 69,317        | 135,333       | 208,652        |
| Non-current assets .....         | 2,134              | 1,402         | 683           | 615            |
| Current liabilities .....        | 20,515             | 22,657        | 31,460        | 46,804         |
| Non-current liabilities .....    | 70                 | 2,070         | 1,003         | 70             |
| Revenue .....                    | 71,329             | 77,725        | 197,017       | 160,682        |
| Profit for the year/period ..... | <u>20,197</u>      | <u>20,432</u> | <u>57,561</u> | <u>58,840</u>  |

**Reconciliation of summarised financial information**

Reconciliation of summarised financial information presented to the carrying amount of its interest in the joint venture.

|  | Jinjiang      |               |                |                |
|--|---------------|---------------|----------------|----------------|
|  | December 31,  |               |                | June 30,       |
|  | 2014          | 2015          | 2016           | 2017           |
|  | RMB'000       | RMB'000       | RMB'000        | RMB'000        |
| <b>Net assets the beginning of the year/period</b> ..... | —             | 76,560        | 45,992         | 103,553        |
| Business combination (Note 39) .....                     | 56,363        | —             | —              | —              |
| Profit for the year/period .....                         | 20,197        | 20,432        | 57,561         | 58,840         |
| Dividends .....  | —             | (51,000)      | —              | —              |
| <b>Net assets at the end of the year/period</b> .....    | <u>76,560</u> | <u>45,992</u> | <u>103,553</u> | <u>162,393</u> |
| Interest in a joint venture .....                        | 50%           | 50%           | 50%            | 50%            |
| Goodwill .....   | <u>2,447</u>  | <u>2,447</u>  | <u>2,447</u>   | <u>2,447</u>   |
| <b>Carrying value</b> .....                              | <u>40,727</u> | <u>25,443</u> | <u>54,224</u>  | <u>83,644</u>  |

As at June 30, 2017, the carrying amount of interest in individually immaterial joint venture that is accounted for using the equity method was approximately RMB7,015,000.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

## 18 Investments in subsidiaries — Company

|   | As at December 31, |                  |                  | As at June 30,   |
|---|--------------------|------------------|------------------|------------------|
|   | 2014               | 2015             | 2016             | 2017             |
|   | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| Investments in subsidiaries .....                                 | 4,838,215          | 5,134,408        | 5,484,998        | 5,356,432        |
| Deemed investments arising from<br>share-based compensation ..... | 3,269              | 140,174          | 231,549          | 277,455          |
|   | <u>4,841,484</u>   | <u>5,274,582</u> | <u>5,716,547</u> | <u>5,633,887</u> |

## 19 Investments in redeemable shares of associates

|  | As at December 31, |               |                | As at June 30, |                |
|--|--------------------|---------------|----------------|----------------|----------------|
|  | 2014               | 2015          | 2016           | 2016           | 2017           |
|  | RMB'000            | RMB'000       | RMB'000        | RMB'000        | RMB'000        |
|  |                    |               |                | (Unaudited)    |                |
| At the beginning of the<br>year/period ..... | —                  | —             | 74,008         | 74,008         | 106,508        |
| Addition .....                               | —                  | 47,242        | —              | —              | 63,000         |
| Fair value gain.....                         | —                  | 26,766        | 32,500         | 13,992         | 5,492          |
| At the end of the year/period .....          | <u>—</u>           | <u>74,008</u> | <u>106,508</u> | <u>88,000</u>  | <u>175,000</u> |

In 2015, the Group made investment in some convertible redeemable preferred shares or redeemable ordinary shares with preference rights of a private company that engaged in provision of audio online publishing service, and the investment was initially acquired in exchange of licensing certain copyrights of the Group to the investee for a certain period of time. Both of the investment and copyrights licensed are initially measured at fair value.

During the six months ended June 30, 2017, the RMB 63,000,000 addition of investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in Foch and the details are set out in Note 25 of these consolidated financial statements.

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

As at December 31, 2015 and 2016 and June 30, 2016 and 2017, the Company used the “Backsolve” method to determine the fair value of investment in redeemable shares of the associate that engaged in provision of audio online publishing service and key assumptions used included the lack of control discount (“DLOC”) of 29% as at December 31, 2015, the risk-free interest rate of 2.9%, 2.64% and 3.52%, and expected volatility of 35%, 30% and 30% as at December 31, 2016, June 30, 2016 and 2017, respectively.

As at June 30, 2017, the Company used the “Backsolve” method to determine the fair value of the investment in redeemable shares of Foch and key assumptions used included the risk-free interest rate of 3.52%, and expected volatility of 40%.

## 20 Financial instruments by category

|  | As at December 31, |                  |                  | As at June 30,   |
|--|--------------------|------------------|------------------|------------------|
|  | 2014               | 2015             | 2016             | 2017             |
|  | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| <b>Assets as per consolidated statements of financial position</b>   |                    |                  |                  |                  |
| Financial assets at fair value through profit or loss:   |                    |                  |                  |                  |
| - Other investments - short-term investments (Note 27(a)) .....  | 66,486             | 287,449          | 368,271          | 85,818           |
| - Other investments - TV drama participation investments (principal guaranteed with variable returns) (Note 27(b)) ..... | —                  | —                | —                | 59,585           |
| - Investments in redeemable shares of associates (Note 19) .....   | —                  | 74,008           | 106,508          | 175,000          |
| - Derivative financial assets (Note 21)..  | —                  | 8,400            | 7,500            | 12,407           |
| Loans and receivables:   |                    |                  |                  |                  |
| - Trade and notes receivables (Note 26) .....  | 226,341            | 178,325          | 549,952          | 579,709          |
| - Other investments - TV drama participation investment (principal and return guaranteed) (Note 27(b)) ..                | —                  | —                | —                | 24,174           |
| - Deposits and other assets (current and non-current portions) (Note 23) ..  | 25,185             | 350,446          | 576,317          | 268,600          |
| - Term deposits (current and non-current portions) (Note 28) .....   | 7,909              | 10,000           | —                | 467,434          |
| - Cash and cash equivalents (Note 28)..  | 830,017            | 331,090          | 404,915          | 1,529,913        |
|  | <u>1,155,938</u>   | <u>1,239,718</u> | <u>2,013,463</u> | <u>3,202,640</u> |



|  | As at December 31, |                  |                  | As at June 30,   |
|--|--------------------|------------------|------------------|------------------|
|  | 2014               | 2015             | 2016             | 2017             |
|  | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| <b>Liabilities as per consolidated statements of financial position</b>  |                    |                  |                  |                  |
| Financial liabilities at fair value through profit or loss:  |                    |                  |                  |                  |
| - Consideration payable related to the acquisition of Cloudary's non-controlling interests (current portions) (Note 33).....   | 83,381             | 9,337            | 500              | 500              |
| - Consideration payable related to the acquisition of Cloudary's non-controlling interests (non-current portions) (Note 33) .....  | 14,556             | —                | —                | —                |
| - Convertible bonds (Note 29) .....  | 471,775            | 577,930          | —                | —                |
| Financial liabilities at amortised cost:   |                    |                  |                  |                  |
| - Trade payables (Note 32) .....   | 225,893            | 222,867          | 419,697          | 522,221          |
| - Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable) (Note 33) ..... | 169,985            | 199,991          | 242,920          | 250,490          |
| - Borrowings (current and non-current portion) (Note 31) .....   | 200,000            | 300,247          | 541,622          | 715,646          |
| - Put option liability (Note 30) .....   | 65,396             | 69,273           | 73,455           | 75,608           |
|  | <u>1,230,986</u>   | <u>1,379,645</u> | <u>1,278,194</u> | <u>1,564,465</u> |

## 21 Derivative financial assets

The Group's put option derivative financial assets were initially and subsequently measured at fair value and the fair value changes of the derivative financial assets were recognized within "Other gains/(losses), net" of the consolidated statements of comprehensive income or loss.

The movement of the derivative financial assets is set out as below:

|  | As at December 31, |              |              | As at June 30, |               |
|--|--------------------|--------------|--------------|----------------|---------------|
|  | 2014               | 2015         | 2016         | 2016           | 2017          |
|  | RMB'000            | RMB'000      | RMB'000      | RMB'000        | RMB'000       |
| At the beginning of the year/period .....              | —                  | —            | 8,400        | 8,400          | 7,500         |
| Recognition of derivative financial assets .....       | —                  | 8,400        | 300          | 300            | —             |
| Fair value change of derivative financial assets ..... | —                  | —            | (1,200)      | (200)          | 4,907         |
| At the end of the year/period .....                    | <u>—</u>           | <u>8,400</u> | <u>7,500</u> | <u>8,500</u>   | <u>12,407</u> |

*Note:*

As at June 30, 2017, approximately RMB12,407,000 derivative financial assets was recognized as the Group has entered into a forward foreign currency contract with Bank of Communication, Tokyo Branch, for the purpose of managing its exchange rate exposure, other than for hedge purpose. And the derivative financial assets is measured at fair value through profit or loss. During the six months ended June 30, 2017, change in the fair value amounting to approximately RMB12,407,000 was recognized in consolidated statements of comprehensive income.

During the year ended December 31, 2016 and the six months ended June 30, 2016, the RMB300,000 addition of derivative financial assets was arising from the put option granted by certain shareholders of the Group's associate that the Group may have the right request to certain shareholders to purchase the equity interest of the associate that held by the Group for cash when certain condition are met. As at June 30, 2017, the fair value of this put option has been decreased to zero, which is based on the valuation made by reference to equity value of the associate.

During the year ended December 31, 2015, the RMB1,400,000 addition of derivative financial assets was arising from the put option granted by the controlling shareholder of the Group's associate that the Group may have the right request to the controlling shareholders to purchase the equity interest of the associate that held by the Group for cash when certain condition are met; the remaining RMB7,000,000 addition of derivative financial assets was arising from the transaction under which the Group made an investment in an associate and also licensed a copyright to the associate, which was amounting to RMB18,500,000, and in exchange, the Group received cash consideration of RMB10,000,000 and also the grant of a put option by the associate's the controlling shareholder in the meantime. The put option gives the Group a right to request the controlling shareholder of the associate to repurchase of the equity interest of the associate held by the Group for cash consideration when certain conditions are met. As at June 30, 2017, the fair value of these put options have been decreased to zero, which is based on the valuation made by reference to equity value of the associate.

## 22 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statements of financial position:

|   | As at December 31, |                  |                  | As at June 30,   |
|---|--------------------|------------------|------------------|------------------|
|   | 2014               | 2015             | 2016             | 2017             |
|   | RMB'000            | RMB'000          | RMB'000          | RMB'000          |
| Deferred tax assets:                              |                    |                  |                  |                  |
| - to be recovered after more than 12 months ..... | 7,771              | 9,294            | 9,011            | 10,812           |
| - to be recovered within 12 months .....          | 25,151             | 16,399           | 19,418           | 16,874           |
|   | <u>32,922</u>      | <u>25,693</u>    | <u>28,429</u>    | <u>27,686</u>    |
| Deferred tax liabilities:                         |                    |                  |                  |                  |
| - to be recovered after more than 12 months ..... | (225,345)          | (224,176)        | (203,338)        | (189,402)        |
| - to be recovered within 12 months .....          | (22,532)           | (21,327)         | (17,655)         | (15,437)         |
|   | <u>(247,877)</u>   | <u>(245,503)</u> | <u>(220,993)</u> | <u>(204,839)</u> |

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

|   | Provision for<br>inventory<br>obsolescence | Tax losses   | Advertising<br>expenses | Provision for<br>doubtful<br>receivables<br>and other<br>temporary<br>differences | Intangible<br>assets<br>acquired in<br>business<br>combination | Total            |
|---|--|--------------|-------------------------|---|--|------------------|
|   | RMB'000                                    | RMB'000      | RMB'000                 | RMB'000   | RMB'000  | RMB'000          |
| <b>As at January 1, 2014</b> .....        | —  | —            | —                       | —   | —  | —                |
| Recognized in the profit or<br>loss ..... | —  | 7,014        | —                       | —   | 4,760  | 11,774           |
| Deemed distribution .....                 | —  | (7,014)      | —                       | —   | —  | (7,014)          |
| Business combinations<br>(Note 39) .....  | 19,177                                     | 1,325        | 1,915                   | 10,314  | (252,446)  | (219,715)        |
| <b>As at December 31, 2014</b>            | <u>19,177</u>                              | <u>1,325</u> | <u>1,915</u>            | <u>10,314</u>   | <u>(247,686)</u>   | <u>(214,955)</u> |
| <b>As at January 1, 2015</b> .....        | 19,177                                     | 1,325        | 1,915                   | 10,314  | (247,686)  | (214,955)        |
| Recognized in the profit or<br>loss ..... | (8,634)                                    | (1,325)      | (1,498)                 | (17,164)  | 23,766   | (4,855)          |
| <b>As at December 31, 2015</b>            | <u>10,543</u>                              | <u>—</u>     | <u>417</u>              | <u>(6,850)</u>  | <u>(223,920)</u>   | <u>(219,810)</u> |
| <b>As at January 1, 2016</b> .....        | 10,543                                     | —            | 417                     | (6,850)   | (223,920)  | (219,810)        |
| Recognized in the profit or<br>loss ..... | 407  | —            | (417)                   | (5,880)   | 33,136   | 27,246           |
| <b>As at December 31, 2016</b>            | <u>10,950</u>                              | <u>—</u>     | <u>—</u>                | <u>(12,730)</u>   | <u>(190,784)</u>   | <u>(192,564)</u> |
| <b>(Unaudited)</b>                        |  |              |                         |   |  |                  |
| <b>As at January 1, 2016</b> .....        | 10,543                                     | —            | 417                     | (6,850)   | (223,920)  | (219,810)        |
| Recognized in the profit or<br>loss ..... | 962  | 1,097        | (290)                   | (4,560)   | 10,427   | 7,636            |
| <b>As at June 30, 2016</b> .....          | <u>11,505</u>                              | <u>1,097</u> | <u>127</u>              | <u>(11,410)</u>   | <u>(213,493)</u>   | <u>(212,174)</u> |
| <b>As at January 1, 2017</b> .....        | 10,950                                     | —            | —                       | (12,730)  | (190,784)  | (192,564)        |
| Recognized in the profit or<br>loss ..... | 1,131                                      | 864          | —                       | (7,650)   | 21,066   | 15,411           |
| <b>As at June 30, 2017</b> .....          | <u>12,081</u>                              | <u>864</u>   | <u>—</u>                | <u>(20,380)</u>   | <u>(169,718)</u>   | <u>(177,153)</u> |

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at December 31, 2014, 2015 and 2016 and June 30, 2017, the Group did not recognise deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB236,930,000, RMB168,103,000, RMB125,644,000, and RMB138,033,000, respectively. These tax losses will expire from 2017 to 2021.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, deferred income tax liabilities of approximately RMB10,410,000, RMB6,849,000, RMB12,856,000 and RMB41,749,000, respectively, have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. As at December 31, 2014, 2015 and 2016 and June 30, 2017 unremitted earnings was amounting to approximately RMB104,097,000, RMB68,491,000, RMB128,556,000 and RMB417,487,000, respectively.

### 23 Prepayments, deposits and other assets

#### Group

|  | As at December 31, |                |                | As at June 30, |
|--|--------------------|----------------|----------------|----------------|
|  | 2014               | 2015           | 2016           | 2017           |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Non-current:   |                    |                |                |                |
| Deposits and prepayments .....   | 5,858              | 7,916          | 17,140         | 19,795         |
| Deferred compensation cost (Note a) .....                                    | 5,600              | 11,206         | 3,200          | 2,600          |
|  | <u>11,458</u>      | <u>19,122</u>  | <u>20,340</u>  | <u>22,395</u>  |
| Current:   |                    |                |                |                |
| Amounts due from related parties<br>(Note d) .....                           | 10                 | 308,405        | 534,875        | 217,408        |
| Prepayments to vendors and online<br>writers .....                           | 29,056             | 46,798         | 53,841         | 57,616         |
| Royalty advances (Note b) .....  | 9,074              | 8,301          | 7,762          | 7,982          |
| Rental and other deposits .....  | 5,701              | 11,430         | 10,639         | 7,271          |
| Interests receivable .....   | 593                | 1,296          | 1,953          | 6,885          |
| Prepaid composition costs (Note c) .....                                     | 2,600              | 437            | 418            | 487            |
| Staff advances .....   | 6,799              | 3,502          | 1,455          | 3,403          |
| Deferred license fees and related costs ...                                  | 16,503             | 2,553          | 731            | 2,972          |
| Capital injection receivable due from a<br>non-controlling shareholder ..... | —                  | 9,000          | —              | —              |
| Others .....   | 6,224              | 8,897          | 10,255         | 18,681         |
|  | <u>76,560</u>      | <u>400,619</u> | <u>621,929</u> | <u>322,705</u> |

*Company*

|   | As at December 31, |                |                | As at June 30,   |
|---|--------------------|----------------|----------------|------------------|
|   | 2014               | 2015           | 2016           | 2017             |
|   | RMB'000            | RMB'000        | RMB'000        | RMB'000          |
| Current:  |                    |                |                |                  |
| Receivables due from subsidiaries .....                               | 5,648              | 553,155        | 586,126        | 1,250,641        |
| Loans and interests receivable from a<br>related party (Note e) ..... | —                  | —              | 218,463        | 216,706          |
|   | <u>5,648</u>       | <u>553,155</u> | <u>804,589</u> | <u>1,467,347</u> |

*Notes:*

- (a) Deferred compensation cost is arising from the arrangements in the Group's historical business combinations, under which parts of the considerations paid by the Group are assessed to be for post combination services to be provided by selling shareholders. Accordingly, these parts of considerations are treated as post-combination services compensation costs and are amortised over the prerequisite service period that set out in the relevant agreements.
- (b) Royalty advances to writers are capitalized and, upon publication, are recovered as royalties are earned based on the fixed ratio of royalty for each book sold. Royalty advances are reviewed for recoverability and a reserve for loss is maintained, if appropriate.
- (c) Prepaid composition costs refer to the prepayments made for obtaining the international standard book number for publishing books. Prepaid composition costs are transferred to costs of inventories when the corresponding books are manufactured. Prepaid composition costs are reviewed for recoverability and a reserve for loss is maintained, if appropriate.
- (d) The balances represent the receivables mainly consist of 1) the principal and interest receivables arising from deposits placed with a related party Oriental Power Holdings Limited for the wealth management arrangement (as at December 31, 2015 and 2016) and 2) loan and interest receivables due from a related party Tencent Asset Management Limited (as at December 31, 2016 and June 30, 2017).

According to the wealth management agreement with Oriental Power Holdings Limited, the interest rate of these deposits was 3.27% per annum. As at December 31, 2015 and 2016, the principals were amounting to RMB300,000,000, and the interest receivables were amounting to approximately RMB4,905,000 and RMB14,715,000, respectively. The deposit was subsequently extended one year in June 2016 and was collected in June 2017.

According to the inter-company loan agreement with Tencent Asset Management Limited, the interest rate of the loan was 3.26% per annum. As at December 31, 2016, the loan and interest receivables were amounting to approximately RMB213,187,000 and RMB5,276,000, respectively. As at June 30, 2017, the loan and interest receivables were amounting to approximately RMB208,190,000 and RMB8,516,000, respectively. The loan was extended one year in February 2017 and was early collected in September 2017.

- (e) As at December 31, 2016, the balances represent a loan and interest receivables of approximately RMB213,187,000 and RMB5,276,000, respectively due from a related party Tencent Asset Management Limited. As at June 30, 2017, the balances represent a loan and interest receivables of approximately RMB208,190,000 and RMB8,516,000, respectively, due from a related party Tencent Asset Management Limited (details of the terms disclosed in (d) above).

The directors of the Company considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as at December 31, 2014, 2015 and 2016 and June 30, 2017. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

## 24 Inventories

|  | As at December 31, |                |                | As at June 30, |
|--|--------------------|----------------|----------------|----------------|
|  | 2014               | 2015           | 2016           | 2017           |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Raw materials .....  | 14,827             | 10,773         | 10,013         | 17,810         |
| Work in progress .....                                     | 33,874             | 27,137         | 30,873         | 29,919         |
| Inventories in self-owned warehouse .....                  | 106,448            | 105,310        | 64,094         | 68,198         |
| Inventories held with distributors on<br>consignment ..... | 94,504             | 101,527        | 90,184         | 95,568         |
| Others .....   | —                  | 2,302          | 13,833         | 31,796         |
|  | 249,653            | 247,049        | 208,997        | 243,291        |
| Less: provision for inventory<br>obsolescence .....        | (96,533)           | (99,157)       | (71,077)       | (77,377)       |
|  | <u>153,120</u>     | <u>147,892</u> | <u>137,920</u> | <u>165,914</u> |

For the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, the cost of inventories recognized as expense and included in “cost of revenues” amounted to nil, approximately RMB141,454,000, RMB151,003,000, RMB71,489,000 and RMB67,063,000, respectively.

## 25 Disposal of subsidiaries

## 1) Disposal group held for sale - Foch

The assets and liabilities related to Foch, a 51% owned subsidiary of the Group, have been presented as disposal group following the Group's management and shareholders' resolution in December 2016 to sell part of its owned equity interest in Foch. In December 2016, the Group has entered into an agreement to sell 8% equity interest in Foch to a third party at the cash consideration of RMB12,960,000 and concurrently, the new investor also injected RMB20,000,000 additional capital to Foch. The transaction was completed in March 2017 and after that, the Group will no longer be able to exercise control over Foch.

According to the share transfer agreement, the Group retained two board seats (out of total five board members) and 38.7% equity interest of Foch after the aforementioned share transfer and capital injection, and the retained shares shall be redeemable upon the occurrence of certain events including Foch's failure to complete an initial public offering within a specified period of time and etc. Since the remaining equity interest in Foch held by the Company contains embedded derivative of redemption feature that are not closely related to the host contract, after considering the Group's investment objectives and intentions, the Group does not bifurcate the embedded derivative from the host instruments and designates the investment in redeemable share of Foch as financial assets at fair value through profit or loss, with the changes in the fair value recorded in “Other gains/(losses), net” in the consolidated statements of comprehensive income or loss.

Upon the disposal, the carrying amount (including goodwill) of the original 51% equity interest of Foch owned by the Group was amounting to approximately RMB17,184,000, while the fair value of the remaining 38.7% redeemable shares of Foch owned by the Group immediately after the share transfer and capital injection was amounting to RMB63,000,000 and the recognised as “investments in redeemable shares of associates” (Note 19) in the consolidated statements of financial position. Accordingly, a disposal gain of approximately RMB58,776,000 was recognized for the six months ended June 30, 2017.

(a) *Assets of disposal group classified as held for sale*

|                                     | As at December 31,<br>2016 |
|-------------------------------------|----------------------------|
|                                     | RMB'000                    |
| Property, plant and equipment ..... | 239                        |
| Goodwill .....                      | 9,622                      |
| Other intangible assets .....       | 80                         |
| Inventories .....                   | 7,719                      |
| Other current assets .....          | 14,565                     |
| <b>Total</b> .....                  | <u>32,225</u>              |

(b) *Liabilities of disposal group classified as held for sale*

|                                 | As at December 31,<br>2016 |
|---------------------------------|----------------------------|
|                                 | RMB'000                    |
| Trade and other payables .....  | 2,123                      |
| Other current liabilities ..... | 1,307                      |
| <b>Total</b> .....              | <u>3,430</u>               |

There are no cumulative income or expenses included in other comprehensive income or loss related to the disposal group.

2) **Disposal of Tianjin Ruinuo Technology Co., Ltd.**

In May 2017, the Group entered into a share transfer agreement to sell the Group's 100% equity interest in its wholly owned subsidiary Tianjin Ruinuo Technology Co., Ltd. (“Tianjin Ruinuo”) to a subsidiary of the Group's ultimate holding company Tencent at the cash consideration of RMB13,000,000. A disposal gain of approximately RMB2,112,000 was recognized accordingly for the six months ended June 30, 2017.



## 26 Trade and notes receivables

|  | As at December 31, |                |                | As at June 30, |
|--|--------------------|----------------|----------------|----------------|
|  | 2014               | 2015           | 2016           | 2017           |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Trade receivables .....                                      | 225,952            | 185,598        | 557,122        | 603,900        |
| Notes receivable .....                                       | 389                | 1,360          | 1,129          | 334            |
|  | 226,341            | 186,958        | 558,251        | 604,234        |
| Less: allowance for impairment of trade<br>receivables ..... | —                  | (8,633)        | (8,299)        | (24,525)       |
|  | <u>226,341</u>     | <u>178,325</u> | <u>549,952</u> | <u>579,709</u> |

Movements on the Group's allowance for impairment of trade receivables are as follows:

|  | As at December 31, |              |              | As at June 30, |               |
|--|--------------------|--------------|--------------|----------------|---------------|
|  | 2014               | 2015         | 2016         | 2016           | 2017          |
|  | RMB'000            | RMB'000      | RMB'000      | RMB'000        | RMB'000       |
|  |                    |              |              | (Unaudited)    |               |
| At the beginning of the<br>year/period .....                       | —                  | —            | 8,633        | 8,633          | 8,299         |
| Provision for doubtful receivables                                 | —                  | 10,367       | 2,285        | —              | 19,868        |
| Collection of amounts previously<br>in dispute .....               | —                  | —            | (1,872)      | (1,763)        | (126)         |
| Receivables written off during<br>the year/period as uncollectable | —                  | (1,734)      | (747)        | —              | (3,516)       |
| At the end of the year/period .....                                | <u>—</u>           | <u>8,633</u> | <u>8,299</u> | <u>6,870</u>   | <u>24,525</u> |

As at December 31, 2014, 2015 and 2016 and June 30, 2017, receivables with amounts that are individually significant have been separately assessed for impairment. Provision was set up against impaired receivables arising from credit default of several customers who are in financial difficulties.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain telecommunication operators and content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days. As at December 31, 2014, 2015 and 2016 and June 30, 2017, only insignificant amounts of the remaining balances were past due. No impairment provision was considered necessary against these balances after management had performed assessment on their credit quality with reference to historical counterparty default rates.

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as at December 31, 2014, 2015 and 2016 and June 30, 2017.

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

|                             | As at December 31, |                |                | As at June 30, |
|-----------------------------|--------------------|----------------|----------------|----------------|
|                             | 2014               | 2015           | 2016           | 2017           |
|                             | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Trade and notes receivables |                    |                |                |                |
| - Up to 3 months .....      | 186,327            | 157,996        | 505,943        | 509,666        |
| - 3 to 6 months .....       | 23,082             | 10,900         | 13,511         | 39,432         |
| - 6 months to 1 year .....  | 5,112              | 5,430          | 22,574         | 18,172         |
| - 1 to 2 years .....        | 8,330              | 2,020          | 4,690          | 8,741          |
| - Over 2 years .....        | 3,490              | 1,979          | 3,234          | 3,698          |
|                             | <u>226,341</u>     | <u>178,325</u> | <u>549,952</u> | <u>579,709</u> |

## 27 Other investments

- (a) *Short-term investments*

|                              | As at December 31, |                |                | As at June 30, |
|------------------------------|--------------------|----------------|----------------|----------------|
|                              | 2014               | 2015           | 2016           | 2017           |
|                              | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Short-term investments ..... | <u>66,486</u>      | <u>287,449</u> | <u>368,271</u> | <u>85,818</u>  |

The short-term investments represent investment in wealth management products issued by banks in the PRC with expected investment income rates for the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2017 were 2.10%~5.40%, 1.65%~5.28%, 1.65%~4.27% and 2.00%~4.55%, respectively. The returns on all of these wealth management products are not guaranteed, and therefore the Group designated them as financial assets at fair value through profit or loss. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy. Changes in fair value (realized and unrealized) of these financial assets had been recognized are recognized in "Other gains/(losses), net" in the consolidated statements of income or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of these short-term investments. None of these short-term investments are either past due or impaired.

(b) *Investments in TV drama participation*

|  | As at December 31, |          |          | As at June 30, |
|--|--------------------|----------|----------|----------------|
|  | 2014               | 2015     | 2016     | 2017           |
|  | RMB'000            | RMB'000  | RMB'000  | RMB'000        |
| TV drama participation investments<br>(principal guaranteed with variable<br>returns)..... | —                  | —        | —        | 59,585         |
| TV drama participation investment<br>(principal and return guaranteed).....                | —                  | —        | —        | 24,174         |
|  | <u>—</u>           | <u>—</u> | <u>—</u> | <u>83,759</u>  |

The Group invested in several TV drama production projects operated by third parties. Acting as a financial investor, the Group did not involve in the TV drama making process.

For the arrangement under which the Group's investments in TV drama participation are guaranteed with the principal plus a fixed rate of return on the principal over a fixed term of period, the cash paid for these investments are accounted for as loans and receivables and the Group accrues interest income on these receivables by using a fixed rate of return that set out in the investment agreements.

For the arrangement under which the Group will be entitled to a fixed percentage of the respective TV drama's worldwide net income with guarantee of the principals, the returns on these kinds of TV drama participation projects are not guaranteed. Therefore the Group designated them as available-for-sale financial assets. The fair values are based on cash flow discounted using the expected return based on management's judgment and are within level 3 of the fair value hierarchy. The fair value changes of these investments from the date of acquisitions to June 30, 2017 are insignificant.

## 28 Cash and cash equivalents and term deposits

*Group*

|  | As at December 31, |                |                | As at June 30,   |
|--|--------------------|----------------|----------------|------------------|
|  | 2014               | 2015           | 2016           | 2017             |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000          |
| Bank balances and term deposits .....                              | 837,926            | 341,090        | 404,915        | 1,997,347        |
| Less: Term deposits with initial term of<br>over three months..... | (7,909)            | (10,000)       | —              | (467,434)        |
| Cash and cash equivalents .....                                    | <u>830,017</u>     | <u>331,090</u> | <u>404,915</u> | <u>1,529,913</u> |
| Maximum exposure to credit risk .....                              | <u>837,926</u>     | <u>341,090</u> | <u>404,915</u> | <u>1,997,347</u> |

*Company*

|                                       | As at December 31, |              |              | As at June 30, |
|---------------------------------------|--------------------|--------------|--------------|----------------|
|                                       | 2014               | 2015         | 2016         | 2017           |
|                                       | RMB'000            | RMB'000      | RMB'000      | RMB'000        |
| Cash and cash equivalents .....       | <u>72,482</u>      | <u>1,735</u> | <u>9,371</u> | <u>9,109</u>   |
| Maximum exposure to credit risk ..... | <u>72,482</u>      | <u>1,735</u> | <u>9,371</u> | <u>9,109</u>   |

Bank balances and term deposits are denominated in the following currencies:

*Group*

|              | As at December 31, |                |                | As at June 30,   |
|--------------|--------------------|----------------|----------------|------------------|
|              | 2014               | 2015           | 2016           | 2017             |
|              | RMB'000            | RMB'000        | RMB'000        | RMB'000          |
| US\$ .....   | 432,648            | 11,450         | 25,190         | 695,030          |
| RMB .....    | 404,873            | 329,219        | 379,725        | 1,302,309        |
| Others ..... | 405                | 421            | —              | 8                |
|              | <u>837,926</u>     | <u>341,090</u> | <u>404,915</u> | <u>1,997,347</u> |

*Company*

|            | As at December 31, |              |              | As at June 30, |
|------------|--------------------|--------------|--------------|----------------|
|            | 2014               | 2015         | 2016         | 2017           |
|            | RMB'000            | RMB'000      | RMB'000      | RMB'000        |
| US\$ ..... | <u>72,482</u>      | <u>1,735</u> | <u>9,371</u> | <u>9,109</u>   |

Term deposits with initial terms of over three months were neither past due nor impaired. The directors of the Company considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as at December 31, 2014 and 2015 and June 30, 2017.

The effective interest rate of the term deposits of the Group for the year ended December 31, 2014 and 2015 and the six months ended June 30, 2017 was 3.55%, 2.2% and 2.6%, respectively.

**29 Convertible bonds**

Convertible bonds of the Group comprise convertible bonds of Cloudary assumed in business combination in December 2014 ("Cloudary's Convertible Bonds"). The Cloudary's Convertible Bonds was issued on June 4, 2013 to an affiliate of Goldman Sachs, a third party lender. The Cloudary's Convertible Bonds with nominal amount of US\$55,000,000 is carrying interest rate at 5% per annum payable annually, and will mature on June 4, 2016. The Cloudary's Convertible Bonds entitle the holder to convert such bond into Class B ordinary shares of Cloudary at any time after the issuance date up to the close of business on the date falling seven days prior to the maturity date. The Group designates the entire hybrid contract of convertible bonds as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of comprehensive income or loss. According to the convertible bonds agreement, the convertible bonds shall be redeemable on account of the event of "change of control" which took place upon the Company's acquisition of Cloudary, hence the Convertible Bonds were classified as current liability as at December 31, 2014.

On April 30, 2015, the Cloudary's Convertible Bonds was replaced by a zero coupon convertible bonds of the Company with nominal amount of approximately US\$74,985,000 and will mature on June 6, 2016 ("New Convertible Bonds"). The New Convertible Bonds entitle the holder to convert such bond into the Company's ordinary shares at a conversion price of US\$2.50 per share at any time after the issuance date up to October 1, 2015 and the conversion price will be increased by 10% at any time after October 2, 2015 up to the maturity date. The Group assessed and accounted for the exchange of convertible bonds as a debt extinguishment, given the contracting parties and interest rate of the Group's convertible bonds were substantially amended. No debt extinguishment gain or loss was arising from aforementioned exchange of convertible bonds.

On June 6, 2016, the New Convertible Bonds were due and redeemed by the Group and a gain of approximately RMB92,207,000 being the excess of fair value of the New Convertible Bonds at the time of redemption (amounting to approximately RMB585,531,000) over the New Convertible Bonds redemption of approximately RMB493,324,000 was recognized in the consolidated statements of comprehensive income or loss upon the redemption. The balance of the Group's convertible bonds as at June 30, 2016 was nil.

The movement of the Group's and Company's convertible bonds are set out as below:

*Group*

|  | Year ended December 31, |                |           |
|--|-------------------------|----------------|-----------|
|  | 2014                    | 2015           | 2016      |
|  | RMB'000                 | RMB'000        | RMB'000   |
| At the beginning of the year .....               | —                       | 471,775        | 577,930   |
| Acquired in business combination (Note 39) ..... | 471,775                 | —              | —         |
| Interest paid .....                              | —                       | (9,530)        | —         |
| Extinguishment of convertible bonds .....        | —                       | (461,839)      | —         |
| Recognition of new convertible bonds .....       | —                       | 461,839        | —         |
| Fair value loss of new convertible bonds .....   | —                       | 84,837         | —         |
| Redemption of new convertible bonds .....        | —                       | —              | (585,531) |
| Exchange difference .....                        | —                       | 30,848         | 7,601     |
| At the end of the year .....                     | <u>471,775</u>          | <u>577,930</u> | <u>—</u>  |

*Company*

|  | Year ended December 31, |                |           |
|--|-------------------------|----------------|-----------|
|  | 2014                    | 2015           | 2016      |
|  | RMB'000                 | RMB'000        | RMB'000   |
| At the beginning of the year .....             | —                       | —              | 577,930   |
| Recognition of new convertible bonds .....     | —                       | 461,839        | —         |
| Redemption of new convertible bonds .....      | —                       | —              | (585,531) |
| Fair value loss of new convertible bonds ..... | —                       | 84,837         | —         |
| Exchange difference .....                      | —                       | 31,254         | 7,601     |
| At the end of the year .....                   | <u>—</u>                | <u>577,930</u> | <u>—</u>  |

The management had used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted binomial model to determine the fair value of convertible bonds as of the date of issuance and at the reporting date. Key assumptions at the issuance and reporting date are set as below:

|                               | <u>December 31, 2014</u> | <u>April 30, 2015</u> | <u>December 31, 2015</u> | <u>June 6, 2016</u> |
|-------------------------------|--------------------------|-----------------------|--------------------------|---------------------|
| Discount rate .....           | 10.50%-10.70%            | 10.50%-10.70%         | 10.60%                   | 10.60%              |
| Risk-free interest rate ..... | 0.99%-1.20%              | 0.99%-1.20%           | 1.75%                    | 1.75%               |
| Volatility .....              | <u>30.00%-40.00%</u>     | <u>30.00%-40.00%</u>  | <u>33.00%</u>            | <u>33.00%</u>       |

Discount rate applied in determining the fair value of the convertible bonds was estimated by considering risky discount rate comprising a risk free rate, and credit and liquidity premiums as of each appraisal date. The managements estimated the risk-free interest rate based LIBOR with a term commensurate with the period from respective appraisal dates to expected maturity date and adjusted for a China country risk premium. The credit and liquidity spreads were estimated by referring to option adjusted spreads of comparable bonds of the comparable companies within the same industry and certain academic study, respectively. Volatility was estimated at the dates of appraisal based on median of historical volatilities of the comparable companies in the same industry within the timeframe commensurate with the period from the respective appraisal dates to expected maturity date. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of convertible bonds on appraisal date.

### 30 Put option liability

|   | <u>As at December 31,</u> |                |                | <u>As at June 30,</u> |
|---|---------------------------|----------------|----------------|-----------------------|
|   | <u>2014</u>               | <u>2015</u>    | <u>2016</u>    | <u>2017</u>           |
|   | <u>RMB'000</u>            | <u>RMB'000</u> | <u>RMB'000</u> | <u>RMB'000</u>        |
| Present value of liability in relation to a put option granted to non-controlling shareholder of a subsidiary ..... | <u>65,396</u>             | <u>69,273</u>  | <u>73,455</u>  | <u>75,608</u>         |

On May 14, 2014, Cloudary acquired 51% equity interest of Shenzhen Lazy Online Technology Co., Ltd. ("Lazy Online"). According to the equity transfer agreement ("Equity Transfer Agreement") in respect of Lazy Online, the founders, representing the non-controlling shareholders of Lazy Online after Cloudary's acquisition, shall have the right to request Cloudary to repurchase founders' equity interests in Lazy Online when certain conditions are met. The repurchase price was determined by making reference to the profit to be generated by Lazy Online in future periods or a fixed amount as stated in Equity Transfer Agreement in case that a change of control of Cloudary (which occurred in December 2014). Accordingly, the put option liability was initially recognized at present value of redemption amount by the Group upon the acquisition of Cloudary with reference to the present value of the estimated future cash outflows under the put option arrangement, and was accreted to redemption amount of approximately RMB76,360,000 as indicated in the Equity Transfer Agreement.

The accretion charge of the put option liabilities recorded in the Group's consolidated statements of comprehensive income or loss was amounting to approximately RMB3,877,000, RMB4,182,000, RMB2,055,000 and RMB2,153,000 for the years ended December 31, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively.

### 31 Borrowings

#### Group

|                                 | As at December 31, |                |                | As at June 30, |
|---------------------------------|--------------------|----------------|----------------|----------------|
|                                 | 2014               | 2015           | 2016           | 2017           |
|                                 | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| <b>Non-current</b>              |                    |                |                |                |
| Bank borrowings .....           | —                  | 247            | —              | 475,000        |
| <b>Current</b>                  |                    |                |                |                |
| Bank and other borrowings ..... | 200,000            | 300,000        | 541,622        | 240,646        |
| <b>Total borrowings</b> .....   | <u>200,000</u>     | <u>300,247</u> | <u>541,622</u> | <u>715,646</u> |

#### Company

|                        | As at December 31, |         |         | As at June 30, |
|------------------------|--------------------|---------|---------|----------------|
|                        | 2014               | 2015    | 2016    | 2017           |
|                        | RMB'000            | RMB'000 | RMB'000 | RMB'000        |
| Other borrowings ..... | —                  | —       | 41,622  | 40,646         |

In March 2017, one of the Group's subsidiaries Shanghai Yewen Information Technology Co., Ltd. ("Shanghai Yewen") entered into a two-year loan facility agreement with Bank of Communications, Shanghai Branch, where a loan facility up to RMB500,000,000 was made available to Shanghai Yewen. As at June 30, 2017, the long-term borrowing balance of RMB475,000,000 consisted of two borrowings of RMB403,326,880 and RMB71,673,120, respectively, borrowed from Bank of Communications under the loan facility agreement. The loans bore a floating interest rate of Bank of Communications' loan prime rate minus 2.5% per annum and will be repayable in March, 2019. The loan facility was guaranteed by Bank of Communications, Tokyo Branch.



As at June 30, 2017 and December 31, 2016, the Group's unsecured short-term borrowing balance of RMB200,000,000 was borrowed from Tencent Technology (Shenzhen) Company Limited through China Merchants Bank with an interest rate at 4.35% per annum. The borrowing was subsequently extended one year in March 2017 and was early repaid in September 2017.

As at June 30, 2017 and December 31, 2016, the Group's and the Company's unsecured short-term borrowing balance of US\$6,000,000 (approximately equal to RMB40,646,000 and RMB41,622,000, respectively) was borrowed from Oriental Power Holdings Limited with an interest rate at 4.0% per annum. The borrowing was subsequently extended two months in June 2017 and was repaid in August 2017.

As at December 31, 2016, the Group's unsecured short-term borrowing balance of RMB300,000,000 was also borrowed from Tencent Technology (Shenzhen) Company Limited through China Merchants Bank with an interest rate at 4.8%. It was outstanding as at December 31, 2015 and subsequently extended one year in June 2016 and was repaid in June 2017.

As at December 31, 2015, the Group's unsecured long-term borrowing balance of approximately RMB247,000 was borrowed from Standard Chartered Bank. The borrowing bore an interest rate at 3.4% per annum and was early repaid in January 2016.

As at December 31, 2014, the Group's unsecured long-term borrowings due within one year balance of RMB200,000,000 was borrowed from Clouday's by then related party, Shanghai Shanda Networking Development Co., Ltd. ("Shanda Networking"). The borrowings bore interest rate at 5.04%~5.9% per annum and was early repaid in June 2015.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

**Group**

|                             | As at December 31, |                |                | As at June 30, |
|-----------------------------|--------------------|----------------|----------------|----------------|
|                             | 2014               | 2015           | 2016           | 2017           |
|                             | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Within 1 year .....         | 200,000            | 300,000        | 541,622        | 240,646        |
| Between 1 and 2 years ..... | —                  | 247            | —              | 475,000        |
|                             | <u>200,000</u>     | <u>300,247</u> | <u>541,622</u> | <u>715,646</u> |

*Company*

|                     | As at December 31, |         |         | As at June 30, |
|---------------------|--------------------|---------|---------|----------------|
|                     | 2014               | 2015    | 2016    | 2017           |
|                     | RMB'000            | RMB'000 | RMB'000 | RMB'000        |
| Within 1 year ..... | —                  | —       | 41,622  | 40,646         |

**32 Trade payables**

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

|                            | As at December 31, |                |                | As at June 30, |
|----------------------------|--------------------|----------------|----------------|----------------|
|                            | 2014               | 2015           | 2016           | 2017           |
|                            | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| - Up to 3 months .....     | 142,780            | 171,732        | 346,297        | 428,986        |
| - 3 to 6 months .....      | 30,690             | 5,853          | 12,606         | 30,267         |
| - 6 months to 1 year ..... | 6,032              | 4,200          | 26,168         | 12,064         |
| - 1 to 2 years .....       | 18,472             | 17,825         | 8,108          | 22,899         |
| - Over 2 years .....       | 27,919             | 23,257         | 26,518         | 28,005         |
|                            | <u>225,893</u>     | <u>222,867</u> | <u>419,697</u> | <u>522,221</u> |

**33 Other payables and accruals***Group*

|   | As at December 31, |         |         | As at June 30, |
|---|--------------------|---------|---------|----------------|
|   | 2014               | 2015    | 2016    | 2017           |
|   | RMB'000            | RMB'000 | RMB'000 | RMB'000        |
| Advertising and marketing expense<br>accruals ..... | 27,102             | 113,975 | 130,599 | 95,752         |
| Staff costs and welfare accruals .....              | 40,501             | 53,288  | 82,968  | 66,466         |
| Non-trade payable due to a related party            | 35,000             | 35,000  | 35,000  | 35,000         |
| Interests payable .....                             | 9,087              | 7,600   | 30,268  | 13,758         |
| Other tax payable .....                             | 16,888             | 19,088  | 30,041  | 31,767         |
| Prepayments received from customers .....           | 19,171             | 13,505  | 16,165  | 19,655         |
| Professional service fee payable .....              | 7,639              | 9,430   | 12,094  | 55,912         |

|   | As at December 31, |                |                | As at June 30, |
|---|--------------------|----------------|----------------|----------------|
|   | 2014               | 2015           | 2016           | 2017           |
|   | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| Payables related to transfer of intangible asset .....  | 9,083              | 9,083          | 9,083          | 9,083          |
| Special funds payable .....   | 8,354              | 2,180          | 4,624          | 4,435          |
| Payables related to investments .....   | —                  | 4,000          | 3,000          | 10,000         |
| Contingent liability .....  | 350                | 169            | 1,969          | 1,800          |
| Logistic fee payable .....  | 2,380              | 1,845          | 1,940          | 2,293          |
| Sales rebate accruals .....   | 5,157              | 3,905          | 1,747          | 2,567          |
| Outsourcing game development fee payable .....  | 1,980              | 900            | 1,278          | 2,144          |
| Non-trade payable due to a minority shareholder of the Company (Note 42)                              | 57,300             | —              | —              | —              |
| Consideration payable related to the acquisition of Cloudary's non-controlling interests (Note) ..... | 83,381             | 9,337          | 500            | 500            |
| Others .....  | 13,683             | 14,084         | 15,731         | 22,181         |
|   | <u>337,056</u>     | <u>297,389</u> | <u>377,007</u> | <u>373,313</u> |

*Note:*

Before the acquisition by China Literature Limited, Cloudary entered into a number of irrevocable agreements with the non-controlling shareholders of a number of its subsidiaries to acquire the remaining equity interests in these subsidiaries held by these non-controlling shareholders, which is considered as obligations of the Cloudary (also for the Group after China Literature Limited's acquisition of Cloudary in December 2014) to settle in cash according to the terms of these irrevocable agreements and the estimate assessed by the management. The consideration payable related to the acquisition of Cloudary's non-controlling interests represented the contingent considerations yet to be settled according to the respective irrevocable agreements at the end of each reporting period. These payables were initially and subsequently measured at fair value by the Group. In addition, as at December 31, 2014, there was balance of consideration payable related to the acquisition of Cloudary's non-controlling interests amounting to approximately RMB14,556,000, to be settled after 12 months after the end of each reporting period that recorded as "other non-current liabilities" in the Group's consolidated statements of financial position. The fair value gain arising from the remeasurement of consideration payable related to the acquisition of Cloudary's non-controlling interests recorded in the Group's consolidated statements of comprehensive income or loss was amounting to approximately RMB5,778,000 for the year ended December 31, 2015.

As at December 31, 2014, 2015 and 2016 and June 30, 2017, the carrying amounts of the Group's payables and accruals approximate to their fair values.

*Company*

|                                  | As at December 31, |            |              | As at June 30, |
|----------------------------------|--------------------|------------|--------------|----------------|
|                                  | 2014               | 2015       | 2016         | 2017           |
|                                  | RMB'000            | RMB'000    | RMB'000      | RMB'000        |
| Interests payable .....          | —                  | —          | 971          | 1,761          |
| Amount due to a subsidiary ..... | 16,696             | —          | —            | —              |
| Others .....                     | —                  | 239        | 275          | 267            |
|                                  | <u>16,696</u>      | <u>239</u> | <u>1,246</u> | <u>2,028</u>   |

**34 Deferred revenue**

Deferred revenue mainly consists of 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as at December 31, 2014, 2015 and 2016 and June 30, 2017, and 2) the balance of deferred copyrights licensing income to be amortised 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 statements of financial position.

**35 Share capital and share premium***Group*

|  | Number of          | Share capital | Share premium    | Total            |
|--|--------------------|---------------|------------------|------------------|
|  | ordinary           |               |                  |                  |
|  | shares             |               |                  |                  |
|  |                    | RMB'000       | RMB'000          | RMB'000          |
| As at January 1, 2014 .....                | 1                  | —             | —                | —                |
| Issuance of ordinary shares for            |                    |               |                  |                  |
| reorganisation of the Group (Note a) ...   | 374,999,999        | 231           | 194,219          | 194,450          |
| Issuance of ordinary shares (Note b) ..... | 291,833,279        | 178           | 4,464,387        | 4,464,565        |
| As at December 31, 2014 and 2015 .....     | <u>666,833,279</u> | <u>409</u>    | <u>4,658,606</u> | <u>4,659,015</u> |
| As at January 1, 2016                      |                    |               |                  |                  |
| Issuance of ordinary shares (Note c) ..... | 33,010,341         | 22            | 652,423          | 652,445          |
| As at December 31, 2016 .....              | <u>699,843,620</u> | <u>431</u>    | <u>5,311,029</u> | <u>5,311,460</u> |
| <b>(Unaudited)</b>                         |                    |               |                  |                  |
| As at January 1, 2016 .....                | 666,833,279        | 409           | 4,658,606        | 4,659,015        |
| Issuance of ordinary shares (Note c) ..... | 33,010,341         | 22            | 652,423          | 652,445          |
| As at June 30, 2016 .....                  | <u>699,843,620</u> | <u>431</u>    | <u>5,311,029</u> | <u>5,311,460</u> |
| As at January 1, 2017 .....                | 699,843,620        | 431           | 5,311,029        | 5,311,460        |
| Issuance of ordinary shares (Note d) ..... | 30,201,818         | 21            | 687,744          | 687,765          |
| As at June 30, 2017 .....                  | <u>730,045,438</u> | <u>452</u>    | <u>5,998,773</u> | <u>5,999,225</u> |

*Company*

|   | Number of<br>ordinary<br>shares | Share capital | Share premium    | Total            |
|---|---------------------------------|---------------|------------------|------------------|
|   |                                 | RMB'000       | RMB'000          | RMB'000          |
| As at January 1, 2014 .....   | 1                               | —             | —                | —                |
| Issuance of ordinary shares for<br>reorganisation of the Group (Note a) ... | 374,999,999                     | 231           | 437,608          | 437,839          |
| Issuance of ordinary shares (Note b) .....                                  | <u>291,833,279</u>              | <u>178</u>    | <u>4,464,387</u> | <u>4,464,565</u> |
| As at December 31, 2014 and 2015 .....                                      | <u>666,833,279</u>              | <u>409</u>    | <u>4,901,995</u> | <u>4,902,404</u> |
| As at January 1, 2016   |                                 |               |                  |                  |
| Issuance of ordinary shares (Note c) .....                                  | <u>33,010,341</u>               | <u>22</u>     | <u>652,423</u>   | <u>652,445</u>   |
| As at December 31, 2016 .....   | <u>699,843,620</u>              | <u>431</u>    | <u>5,554,418</u> | <u>5,554,849</u> |
| <b>(Unaudited)</b>  |                                 |               |                  |                  |
| As at January 1, 2016 .....   | 666,833,279                     | 409           | 4,901,995        | 4,902,404        |
| Issuance of ordinary shares (Note c) .....                                  | <u>33,010,341</u>               | <u>22</u>     | <u>652,423</u>   | <u>652,445</u>   |
| As at June 30, 2016 .....   | <u>699,843,620</u>              | <u>431</u>    | <u>5,554,418</u> | <u>5,554,849</u> |
| As at January 1, 2017 .....   | 699,843,620                     | 431           | 5,554,418        | 5,554,849        |
| Issuance of ordinary shares (Note d) .....                                  | <u>30,201,818</u>               | <u>21</u>     | <u>687,744</u>   | <u>687,765</u>   |
| As at June 30, 2017 .....   | <u>730,045,438</u>              | <u>452</u>    | <u>6,242,162</u> | <u>6,242,614</u> |

*Notes:*

(a) For the purpose of reorganisation and the acquisition of Chuangshi of the Group, 374,999,999 ordinary shares of the Company with par value of US\$0.0001 were allotted and issued as follows:

- (i) 254,999,999 ordinary shares of the Company were allotted and issued to entities controlled by Tencent, out of which 55,000,000 ordinary shares of the Company were allotted and issued upon the conversion of 55,000,000 preference shares of the Company amounting to approximately RMB39,596,000 and the remaining 199,999,999 ordinary Shares of the Company were allotted and issued in exchange for the Tencent Literature Business (Note 1.2); and 45,000,000 ordinary shares of the Company were allotted and issued to Deal Plus Global Limited, a third party, at net cash considerations of approximately RMB56,021,000;
- (ii) 75,000,000 ordinary shares of the Company were allotted and issued to a number of individual as purchase consideration for the acquisition of Chuangshi (Note 39(b)), by making reference to the valuation per share of the above 45,000,000 ordinary shares to Deal Plus Global Limited.

These shares rank pari passu in all respects with the shares in issue.

The excess over the par value for the 374,999,999 ordinary shares issued was credited to the share premium account with aggregate amounts of approximately RMB194,219,000.

- (b) In November and December 2014, 166,055,137 ordinary shares and 125,778,142 ordinary shares of the Company were allotted and issued to an entity controlled by Tencent and a number of independent third parties at a price of US\$2.50 per share for an aggregated consideration of approximately US\$729,583,000 (equivalent to approximately RMB4,464,565,000). These shares rank pari passu in all respects with the shares in issue.

The excess over the par value for the 291,833,279 ordinary shares issued was credited to the share premium account with aggregate amount of approximately RMB4,464,387,000.

- (c) In February 2016, 33,010,341 ordinary shares of the Company were allotted and issued to an entity controlled by Tencent and a number of independent third parties at a price of US\$3.0294 per share for an aggregated consideration of approximately US\$100,000,000 (equivalent to approximately RMB652,445,000). These shares rank pari passu in all respects with the shares in issue.

The excess over the par value for the 33,010,341 ordinary shares issued was credited to the share premium account with aggregate amounts of approximately RMB652,423,000.

- (d) In January 2017, 30,201,818 ordinary shares of the Company were allotted and issued to three existing shareholders of the Company at a price of US\$3.31 per share for an aggregated consideration of approximately US\$100,000,000 (equivalent to approximately RMB 687,765,000). These shares rank pari passu in all respects with the shares in issue.

The excess over the par value for the 30,201,818 ordinary shares issued was credited to the share premium account with aggregate amount of approximately RMB687,744,000.

### 36 Other reserves

#### Group

|  | Contribution<br>from holding<br>company | Currency<br>translation<br>differences | Put option<br>on non-<br>controlling<br>interests | Share-based<br>compensation<br>reserve | Statutory<br>surplus<br>reserve fund | Total           |
|--|---|--|---|--|--------------------------------------|-----------------|
|  | RMB'000                                 | RMB'000                                | RMB'000   | RMB'000                                | RMB'000                              | RMB'000         |
| As at January 1, 2014 .....                                      | 1,613                                   | —                                      | —   | —                                      | —                                    | 1,613           |
| Deemed contribution .....  | 18,314                                  | —                                      | —   | —                                      | —                                    | 18,314          |
| Currency translation<br>differences .....                        | —                                       | (595)                                  | —   | —                                      | —                                    | (595)           |
| Share-based compensation<br>expenses (Note 37) .....             | 3,319                                   | —                                      | —   | 3,259                                  | —                                    | 6,578           |
| Profit appropriations to<br>statutory reserves<br>(Note a) ..... | —                                       | —                                      | —   | —                                      | 517                                  | 517             |
| Others .....   | 768                                     | —                                      | —   | —                                      | —                                    | 768             |
| Initial recognition of put<br>option liability .....             | —                                       | —                                      | (65,396)  | —                                      | —                                    | (65,396)        |
| As at December 31, 2014  | <u>24,014</u>                           | <u>(595)</u>                           | <u>(65,396)</u>                                   | <u>3,259</u>                           | <u>517</u>                           | <u>(38,201)</u> |
| As at January 1, 2015 .....                                      | 24,014                                  | (595)                                  | (65,396)  | 3,259                                  | 517                                  | (38,201)        |
| Currency translation<br>differences .....                        | —                                       | (9,571)                                | —   | —                                      | —                                    | (9,571)         |
| Share-based compensation<br>expenses (Note 37) .....             | 1,081                                   | —                                      | —   | 130,705                                | —                                    | 131,786         |
| Profit appropriations to<br>statutory reserves<br>(Note a) ..... | —                                       | —                                      | —   | —                                      | 8,863                                | 8,863           |
| Others .....   | <u>1,686</u>                            | <u>—</u>                               | <u>—</u>  | <u>—</u>                               | <u>—</u>                             | <u>1,686</u>    |
| As at December 31, 2015  | <u>26,781</u>                           | <u>(10,166)</u>                        | <u>(65,396)</u>                                   | <u>133,964</u>                         | <u>9,380</u>                         | <u>94,563</u>   |

**APPENDIX I**
**ACCOUNTANT'S REPORT**

|  | Contribution<br>from holding<br>company | Currency<br>translation<br>differences | Put option<br>on non-<br>controlling<br>interests | Share-based<br>compensation<br>reserve | Statutory<br>surplus<br>reserve<br>fund | Capital<br>reserve | Total          |
|--|---|--|---|--|---|--------------------|----------------|
|  | RMB'000                                 | RMB'000                                | RMB'000   | RMB'000                                | RMB'000                                 | RMB'000            | RMB'000        |
| As at January 1, 2016  | 26,781                                  | (10,166)                               | (65,396)  | 133,964                                | 9,380                                   | —                  | 94,563         |
| Currency translation<br>differences .....                        | —                                       | 27,229                                 | —   | —                                      | —                                       | —                  | 27,229         |
| Share-based<br>compensation<br>expenses (Note 37) .              | 585                                     | —                                      | —   | 77,438                                 | —                                       | —                  | 78,023         |
| Acquisition of<br>non-controlling<br>interests (Note b) ....     | —                                       | —                                      | —   | —                                      | —                                       | (7,281)            | (7,281)        |
| Profit appropriations<br>to statutory reserves<br>(Note a) ..... | —                                       | —                                      | —   | —                                      | 14,686                                  | —                  | 14,686         |
| Others .....   | 3,658                                   | —                                      | —   | —                                      | —                                       | —                  | 3,658          |
| As at December 31,<br>2016 .....                                 | <u>31,024</u>                           | <u>17,063</u>                          | <u>(65,396)</u>                                   | <u>211,402</u>                         | <u>24,066</u>                           | <u>(7,281)</u>     | <u>210,878</u> |
| <b>(Unaudited)</b>   |   |  |   |  |   |                    |                |
| As at January 1, 2016  | 26,781                                  | (10,166)                               | (65,396)  | 133,964                                | 9,380                                   | —                  | 94,563         |
| Currency translation<br>differences .....                        | —                                       | 5,545                                  | —   | —                                      | —                                       | —                  | 5,545          |
| Share-based<br>compensation<br>expenses (Note 37) .              | 151                                     | —                                      | —   | 39,008                                 | —                                       | —                  | 39,159         |
| Acquisition of<br>non-controlling<br>interests (Note b) ....     | —                                       | —                                      | —   | —                                      | —                                       | (7,281)            | (7,281)        |
| Others .....   | 730                                     | —                                      | —   | —                                      | —                                       | —                  | 730            |
| As at June 30, 2016 ...  | <u>27,662</u>                           | <u>(4,621)</u>                         | <u>(65,396)</u>                                   | <u>172,972</u>                         | <u>9,380</u>                            | <u>(7,281)</u>     | <u>132,716</u> |
| As at January 1, 2017  | 31,024                                  | 17,063                                 | (65,396)  | 211,402                                | 24,066                                  | (7,281)            | 210,878        |
| Currency translation<br>differences .....                        | —                                       | (21,835)                               | —   | —                                      | —                                       | —                  | (21,835)       |
| Share-based<br>compensation<br>expenses (Note 37) .              | 305                                     | —                                      | —   | 52,295                                 | —                                       | —                  | 52,600         |
| Others .....   | 2,295                                   | —                                      | —   | —                                      | —                                       | —                  | 2,295          |
| As at June 30, 2017 ...  | <u>33,624</u>                           | <u>(4,772)</u>                         | <u>(65,396)</u>                                   | <u>263,697</u>                         | <u>24,066</u>                           | <u>(7,281)</u>     | <u>243,938</u> |

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*Note:*

- (a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalized as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

- (b) During the year ended December 31, 2016, the Group acquired additional equity interests in a non-wholly owned subsidiary Tianjin Zhongzhi Bowen Book Co., Ltd. of the Group at aggregate considerations of approximately RMB40,409,000, which were settled in cash. The excess of considerations over the aggregate carrying amounts of acquired non-controlling interests was recognized directly in equity as “capital reserve”.



*Company*

|   | Share-based<br>compensation<br>reserve | Currency<br>translation<br>differences | Total          |
|---|--|--|----------------|
|   | RMB'000                                | RMB'000                                | RMB'000        |
| As at January 1, 2014 .....             | —                                      | —                                      | —              |
| Share-based compensation expenses ..... | 3,259                                  | —                                      | 3,259          |
| Currency translation differences .....  | —                                      | (2,764)                                | (2,764)        |
| As at December 31, 2014 .....           | <u>3,259</u>                           | <u>(2,764)</u>                         | <u>495</u>     |
| As at January 1, 2015 .....             | 3,259                                  | (2,764)                                | 495            |
| Share-based compensation expenses ..... | 130,560                                | —                                      | 130,560        |
| Currency translation differences .....  | —                                      | 303,710                                | 303,710        |
| As at December 31, 2015 .....           | <u>133,819</u>                         | <u>300,946</u>                         | <u>434,765</u> |
| As at January 1, 2016 .....             | 133,819                                | 300,946                                | 434,765        |
| Share-based compensation expenses ..... | 77,350                                 | —                                      | 77,350         |
| Currency translation differences .....  | —                                      | 410,315                                | 410,315        |
| As at December 31, 2016 .....           | <u>211,169</u>                         | <u>711,261</u>                         | <u>922,430</u> |
| <b>(Unaudited)</b>                      |  |  |                |
| As at January 1, 2016 .....             | 133,819                                | 300,946                                | 434,765        |
| Share-based compensation expenses ..... | 39,008                                 | —                                      | 39,008         |
| Currency translation differences .....  | —                                      | 137,403                                | 137,403        |
| As at June 30, 2016 .....               | <u>172,827</u>                         | <u>438,349</u>                         | <u>611,176</u> |
| As at January 1, 2017 .....             | 211,169                                | 711,261                                | 922,430        |
| Share-based compensation expenses ..... | 52,295                                 | —                                      | 52,295         |
| Currency translation differences .....  | —                                      | (163,396)                              | (163,396)      |
| As at June 30, 2017 .....               | <u>263,464</u>                         | <u>547,865</u>                         | <u>811,329</u> |

## 37 Share-based payments

(a) *Share-based compensation plans of Tencent*

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

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

|  | <u>Number of RSUs</u> |
|--|-----------------------|
| At January 1, 2014 .....                 | 55,956                |
| Vested before share subdivision .....    | (480)                 |
| Granted after share subdivision .....    | 8,000                 |
| Vested after share subdivision .....     | (88,440)              |
| Effect of share subdivision (Note) ..... | <u>221,904</u>        |
| At December 31, 2014 .....               | <u>196,940</u>        |
| At January 1, 2015 .....                 | 196,940               |
| Forfeited .....                          | (26,900)              |
| Vested .....                             | <u>(81,540)</u>       |
| At December 31, 2015 .....               | <u>88,500</u>         |
| At January 1, 2016 .....                 | 88,500                |
| Vested .....                             | <u>(49,000)</u>       |
| At December 31, 2016 .....               | <u>39,500</u>         |
| <b>(Unaudited)</b>                       |                       |
| At January 1, 2016 .....                 | 88,500                |
| Vested .....                             | <u>(2,400)</u>        |
| At June 30, 2016 .....                   | <u>86,100</u>         |
| At January 1 and June 30, 2017 .....     | <u>39,500</u>         |

*Note:*

It represented the effects of adjustments made to the numbers of shares as a result of the share subdivision of Tencent.

The fair value of the awarded shares was calculated based on the market price of the Tencent's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

(b) *Share-based compensation plan of the Group*

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

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

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

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

As such, the Group modified the terms of conditions of its granted RSUs that are not beneficial to its employees. This should not be taken into account when considering the estimate of the number of equity instruments expected to vest and the Group continues to account for the 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 amount to 40,409,091 shares.

On January 17, 2017, 5,807,500 RSUs have been granted to certain 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 and the completion of an IPO of the Company.

Movements in the number of RSUs outstanding is as follows:

|  | <u>Number of RSUs</u> |
|--|-----------------------|
| At January 1, 2014 .....                             | —                     |
| Granted .....  | 19,340,000            |
| Outstanding balance as at At December 31, 2014 ..... | <u>19,340,000</u>     |
| At January 1, 2015 .....                             | —                     |
| Forfeited .....                                      | (702,500)             |
| Vested .....   | <u>(3,727,500)</u>    |
| Outstanding balance as at At December 31, 2015 ..... | <u>14,910,000</u>     |
| At January 1, 2016 .....                             | —                     |
| Forfeited .....                                      | (85,000)              |
| Vested .....   | <u>(3,693,500)</u>    |
| Outstanding balance as at At December 31, 2016 ..... | <u>11,131,500</u>     |
| <b>(Unaudited)</b>                                   |                       |
| At January 1, 2016 .....                             | 14,910,000            |
| Forfeited .....                                      | <u>(5,000)</u>        |
| At June 30, 2016 .....                               | <u>14,905,000</u>     |
| At January 1, 2017 .....                             | 11,131,500            |
| Granted.....   | 5,807,500             |
| Forfeited.....                                       | <u>(25,000)</u>       |
| At June 30, 2017 .....                               | <u>16,914,000</u>     |

The fair value of each RSUs at the grant dates, namely December 23, 2014 and January 17, 2017, were determined by reference to the fair value of the ordinary share of the Company that issued to its shareholders.

(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 statements of comprehensive income or loss. As at December 31, 2014, 2015 and 2016 and June 30, 2016 and 2017, the Expected Retention Rate was assessed to be 100%, 100%, 100%, 100% and 100%, respectively.

38 **Commitments**

The Group leases servers and office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|  | As at December 31, |               |                | As at June 30, |
|--|--------------------|---------------|----------------|----------------|
|  | 2014               | 2015          | 2016           | 2017           |
|  | RMB'000            | RMB'000       | RMB'000        | RMB'000        |
| No later than 1 year .....                           | 21,747             | 26,479        | 45,399         | 39,648         |
| Later than 1 year and no later than<br>5 years ..... | 10,851             | 18,076        | 58,434         | 59,605         |
|  | <u>32,598</u>      | <u>44,555</u> | <u>103,833</u> | <u>99,253</u>  |

39 **Business combinations**(1) *Business combinations during the year ended December 31, 2014*(a) *Acquisition of Cloudary Corporation*

On December 26, 2014, the Group directly and indirectly acquired entire equity interest in several entities engaging in the online literature business in the PRC including Cloudary Corporation, from certain independent third parties (“Cloudary Acquisition”).

The goodwill of approximately RMB3,653,972,000 arising from the Cloudary Acquisition is attributable to the acquired market shares and economies of scale expected to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the Cloudary Acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

|   | 2014             |
|---|------------------|
|   | RMB'000          |
| Consideration — cash consideration .....                                    | 4,464,388        |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |                  |
| Property, plant and equipment .....   | 23,823           |
| Intangible assets .....   | 1,063,479        |
| Investments accounted for using the equity method .....                     | 45,676           |
| Deferred income tax assets .....  | 32,922           |
| Other investments .....   | 66,486           |
| Term deposits .....   | 7,909            |
| Prepayments, deposits and other assets .....                                | 61,232           |
| Inventories .....   | 153,120          |
| Trade and notes receivables .....   | 185,067          |
| Cash and cash equivalents .....   | 621,895          |
| Convertible bonds .....   | (471,775)        |
| Other non-current liabilities .....   | (14,556)         |
| Trade payables .....  | (160,167)        |
| Other payables and accruals .....   | (196,435)        |
| Borrowings .....  | (200,000)        |
| Deferred revenue .....  | (78,902)         |
| Current income tax liabilities .....  | (23,651)         |
| Deferred income tax liabilities .....                                       | (237,099)        |
| Total identifiable net assets .....   | 879,024          |
| Non-controlling interests .....   | (68,608)         |
| Goodwill .....  | 3,653,972        |
|   | <u>4,464,388</u> |

Costs related to the acquisition of Cloudary Corporation for the year ended December 31, 2014 was approximately RMB24,000,000, which were borne by the shareholders of the Company.

For the non-controlling interests in Cloudary, the Group recognized the non-controlling interests at its proportionate share of the acquired net identifiable assets.

The Group's revenue and loss for the year would be increased by approximately RMB1,134,558,000 and RMB104,442,000, respectively, if the acquisition had occurred on January 1, 2014.

(b) *Acquisition of Chuangshi online literature*

In May 2014, the Group acquired 100% equity interests in certain entities engaging in operation of online literature business through the brand of “Chuangshi”.

The goodwill of approximately RMB61,687,000 arising from the acquisition is attributable to the acquired market shares and economies of scale expected to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the acquisition, the fair value of assets acquired and liabilities assumed at the acquisition date.

|   | <u>2014</u>    |
|---|----------------|
|   | <u>RMB'000</u> |
| Consideration — fair value of shares consideration .....                    | 93,288         |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |                |
| Property, plant and equipment .....   | 2,977          |
| Intangible assets .....   | 96,002         |
| Prepayments, deposits and other assets .....                                | 11,364         |
| Trade receivables .....   | 14,333         |
| Cash and cash equivalents .....   | 35,984         |
| Trade payables .....  | (5,246)        |
| Other payables and accruals .....   | (107,961)      |
| Deferred revenue .....  | (2,658)        |
| Deferred income tax liabilities .....                                       | (13,194)       |
| Total identifiable net assets .....   | 31,601         |
| Goodwill .....  | 61,687         |
|   | <u>93,288</u>  |

Costs related to the acquisition of Chuangshi online literature for the year ended December 31, 2014 were not significant and have been borne by the ultimate holding company of the Company.

The Group's revenue and loss for the year would be increased and decreased by RMB38,319,000 and RMB5,915,000, respectively, if the acquisition had occurred on January 1, 2014.

(2) *Major business combinations during the year ended December 31, 2015*

During the year ended December 31, 2015, the Group has acquired 51% equity interests in Foch, which mainly engaged in cartoon film-making in Shanghai, PRC.

The goodwill of approximately RMB9,622,000 arising from the acquisition is attributable to business cooperation expected to be derived from combining with the operations of the Group. None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for the acquisition of Foch, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

|   | <u>2015</u>          |
|---|----------------------|
|   | <u>RMB'000</u>       |
| Consideration — cash consideration .....                                    | 20,400               |
| - Purchase consideration settled in cash .....                              | 8,950                |
| - Consideration payable .....   | <u>11,450</u>        |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |                      |
| Property, plant and equipment .....   | 70                   |
| Prepayments, deposits and other assets .....                                | 16,569               |
| Inventories .....   | 594                  |
| Trade receivables .....   | 1,005                |
| Cash and cash equivalents .....   | 7,852                |
| Trade payables .....  | (2,759)              |
| Other payables and accruals .....   | (2,169)              |
| Current income tax liabilities .....  | <u>(29)</u>          |
| Total identifiable net assets .....   | 21,133               |
| Non-controlling interests .....   | (10,355)             |
| Goodwill .....  | <u>9,622</u>         |
|   | <u><u>20,400</u></u> |

For the non-controlling interests in Foch, the Group recognized the non-controlling interests at its proportionate share of the acquired net identifiable assets.

The revenue contributed by the acquisition to the Group for the period since the date of acquisition were insignificant to the Group.



## 40 Note to consolidated statements of cash flows

|  | Year ended December 31, |           |          | Six months ended June 30, |          |
|--|-------------------------|-----------|----------|---------------------------|----------|
|  | 2014                    | 2015      | 2016     | 2016                      | 2017     |
|  | RMB'000                 | RMB'000   | RMB'000  | RMB'000                   | RMB'000  |
|  |                         |           |          | (Unaudited)               |          |
| <b>Profit/(loss) for the year/period</b>   | (21,130)                | (354,159) | 30,360   | (2,381)                   | 213,489  |
| Adjustments for:   |                         |           |          |                           |          |
| Income tax expense .....   | 25,246                  | 37,017    | 7,958    | 7,245                     | 30,202   |
| Compensation charges for<br>post-combination services .....  | —                       | 2,394     | 3,533    | 1,767                     | 989      |
| Share-based compensation<br>expenses .....   | 6,578                   | 131,786   | 78,023   | 39,159                    | 52,600   |
| Contribution from Tencent .....  | 768                     | 1,686     | 3,658    | 730                       | 2,295    |
| Depreciation of property, plant<br>and equipment .....   | 1,409                   | 12,284    | 14,531   | 7,351                     | 13,688   |
| Amortisation of intangible assets  | 23,468                  | 221,454   | 192,464  | 102,150                   | 81,062   |
| (Gain)/loss on disposals of<br>property, plant and equipment .   | —                       | (664)     | 531      | 238                       | 202      |
| Provision for/(reversal of)<br>doubtful receivables .....  | —                       | 10,799    | 1,264    | (1,887)                   | 19,742   |
| Provision for inventory<br>obsolescence .....  | —                       | 34,496    | 42,046   | 19,810                    | 21,009   |
| Impairment loss of<br>available-for-sale financial<br>assets .....   | —                       | —         | 483      | —                         | —        |
| Impairment provision for<br>intangible assets .....  | —                       | 5,700     | 49,000   | —                         | 51,200   |
| Fair value loss of convertible<br>bonds .....  | —                       | 84,837    | —        | —                         | —        |
| Gain on redemption of<br>convertible bonds .....   | —                       | —         | (92,207) | (92,207)                  | —        |
| Share of profit of investments<br>accounted for using equity<br>method .....                                     | —                       | (5,845)   | (28,148) | (10,551)                  | (29,915) |
| (Gain)/loss on disposal of<br>subsidiaries .....   | —                       | —         | 746      | —                         | (60,888) |
| Gain on disposal of an associate .   | —                       | —         | (500)    | —                         | —        |
| Fair value gain of consideration<br>payables related to the<br>acquisition of non-controlling<br>interests ..... | —                       | (5,778)   | —        | —                         | —        |

**APPENDIX I**
**ACCOUNTANT'S REPORT**

|  | Year ended December 31, |                       |                       | Six months ended June 30, |                       |
|--|-------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
|  | 2014                    | 2015                  | 2016                  | 2016                      | 2017                  |
|  | RMB'000                 | RMB'000               | RMB'000               | RMB'000                   | RMB'000               |
|  |                         |                       |                       | (Unaudited)               |                       |
| Accretion charges of put option liability .....  | —                       | 3,877                 | 4,182                 | 2,055                     | 2,153                 |
| Fair value change of derivative financial assets .....                                   | —                       | —                     | 1,200                 | 200                       | (4,907)               |
| Gain on copyrights licensing (Note 21) .....   | —                       | (1,500)               | —                     | —                         | —                     |
| Recognition of derivative financial assets .....   | —                       | (8,400)               | (300)                 | (300)                     | —                     |
| Fair value gain of investment in redeemable shares of an associate .....                 | —                       | (26,766)              | (32,500)              | (13,992)                  | (5,492)               |
| Interest income on bank deposits   | (309)                   | (1,654)               | (3,939)               | (2,047)                   | (12,245)              |
| Fair value gain on financial assets at fair value through profit or loss (Note 27) ..... | (23)                    | (11,773)              | (11,594)              | (3,859)                   | (4,588)               |
| Interest income on investments and loans receivable .....                                | —                       | (4,905)               | (14,861)              | (6,564)                   | (7,500)               |
| Interest expense .....   | 172                     | 13,004                | 22,910                | 10,348                    | 17,426                |
| Guarantee expense .....  | —                       | —                     | —                     | —                         | 859                   |
| Foreign exchange (gain)/loss .....   | —                       | 13,957                | 19,622                | 6,276                     | (7,592)               |
| Changes in working capital: .....  |                         |                       |                       |                           |                       |
| Trade and notes receivables .....  | (26,940)                | 38,654                | (372,056)             | (179,345)                 | (54,171)              |
| Inventories .....  | —                       | (28,674)              | (39,793)              | (21,322)                  | (48,299)              |
| Prepayments, deposits and other assets .....   | (11,105)                | (22,124)              | 2,136                 | (2,412)                   | (12,192)              |
| Investments in TV drama participation .....  | —                       | —                     | —                     | —                         | (83,759)              |
| Trade payables .....   | 158,913                 | (5,785)               | 198,953               | 64,188                    | 102,441               |
| Deferred revenue .....   | 14,032                  | 47,117                | 83,904                | 25,349                    | 75,662                |
| Other payables and accruals .....  | (56,164)                | 88,211                | 64,492                | 28,760                    | 3,714                 |
| <b>Net cash provided by operating activities .....</b>                                   | <b><u>114,915</u></b>   | <b><u>269,246</u></b> | <b><u>226,098</u></b> | <b><u>(21,241)</u></b>    | <b><u>357,185</u></b> |

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

|  | Year ended December 31, |         |         | Six months ended June 30, |         |
|--|-------------------------|---------|---------|---------------------------|---------|
|  | 2014                    | 2015    | 2016    | 2016                      | 2017    |
|  | RMB'000                 | RMB'000 | RMB'000 | RMB'000<br>(Unaudited)    | RMB'000 |
| Net book amount .....                                      | —                       | 811     | 803     | 397                       | 222     |
| Gain/(loss) on disposal of<br>property and equipment ..... | —                       | 654     | (531)   | (238)                     | (202)   |
| Proceeds from disposal of<br>property and equipment .....  | —                       | 1,465   | 272     | 159                       | 20      |

Other than the allotment and issuance of the Company's 254,999,999 ordinary shares to entities controlled by Tencent for the conversion of preference shares and the exchange for Tencent Literature Business described in Note 35, the acquisition of Chuangshi online literature described in Note 39 and acquisition of investments in redeemable shares of associates described in Note 19, there are no material non-cash transactions for the years/periods presented.

The reconciliation of liabilities arising from financing activities is as follows:

|                                      | Borrowings<br>(non-current) | Borrowings<br>(current) | Convertible<br>bonds | Interest<br>payable | Non-trade<br>payable due<br>to a minority<br>shareholder<br>of the<br>Company | Consideration<br>payable related to<br>the acquisition of<br>Cloudary's<br>non-controlling<br>interests<br>(non-current) | Consideration<br>payable related to<br>the acquisition of<br>Cloudary's<br>non-controlling<br>interests (current) | Total     |
|--------------------------------------|-----------------------------|-------------------------|----------------------|---------------------|---|--|---|-----------|
|                                      | RMB'000                     | RMB'000                 | RMB'000              | RMB'000             | RMB'000   | RMB'000  | RMB'000   | RMB'000   |
| <b>As at January 1, 2014</b> .....   | 172                         | —                       | —                    | —                   | 57,300  | —  | —   | 57,472    |
| Cash flows .....                     | (172)                       | —                       | —                    | —                   | —   | —  | —   | (172)     |
| Business combinations .....          | —                           | 200,000                 | 471,775              | 9,087               | —   | 14,556   | 83,381  | 778,799   |
| Other non-cash movements .....       | —                           | —                       | —                    | —                   | —   | —  | —   | —         |
| <b>As at December 31, 2014</b> ..... | —                           | 200,000                 | 471,775              | 9,087               | 57,300  | 14,556   | 83,381  | 836,099   |
| <b>As at January 1, 2015</b> .....   | —                           | 200,000                 | 471,775              | 9,087               | 57,300  | 14,556   | 83,381  | 836,099   |
| Foreign exchange adjustments .....   | —                           | —                       | 30,848               | —                   | —   | —  | —   | 30,848    |
| Cash flows .....                     | —                           | 100,000                 | (9,530)              | (14,491)            | (57,300)  | —  | (82,822)  | (64,143)  |
| Other non-cash movements .....       | —                           | —                       | 84,837               | 13,004              | —   | —  | (5,778)   | 92,063    |
| Business combinations .....          | 247                         | —                       | —                    | —                   | —   | —  | —   | 247       |
| Reclassification .....               | —                           | —                       | —                    | —                   | —   | (14,556)   | 14,556  | —         |
| <b>As at December 31, 2015</b> ..... | 247                         | 300,000                 | 577,930              | 7,600               | —   | —  | 9,337   | 895,114   |
| <b>As at January 1, 2016</b> .....   | 247                         | 300,000                 | 577,930              | 7,600               | —   | —  | 9,337   | 895,114   |
| Foreign exchange adjustments .....   | —                           | —                       | 7,601                | —                   | —   | —  | —   | 7,601     |
| Cash flows .....                     | (247)                       | 241,622                 | (493,324)            | —                   | —   | —  | (8,837)   | (260,786) |
| Other non-cash movements .....       | —                           | —                       | (92,207)             | 22,668              | —   | —  | —   | (69,539)  |
| <b>As at December 31, 2016</b> ..... | —                           | 541,622                 | —                    | 30,268              | —   | —  | 500   | 572,390   |
| <b>As at January 1, 2017</b> .....   | —                           | 541,622                 | —                    | 30,268              | —   | —  | 500   | 572,390   |
| Foreign exchange adjustments .....   | —                           | (976)                   | —                    | —                   | —   | —  | —   | (976)     |
| Cash flows .....                     | 475,000                     | (300,000)               | —                    | (33,936)            | —   | —  | —   | 141,064   |
| Other non-cash movements .....       | —                           | —                       | —                    | 17,426              | —   | —  | —   | 17,426    |
| <b>As at June 30, 2017</b> .....     | 475,000                     | 240,646                 | —                    | 13,758              | —   | —  | 500   | 729,904   |

## 41 Subsidiaries

Particulars of the principal subsidiaries of the Group as at the date of this report and as at December 31, 2014, 2015 and 2016 and June 30, 2017 are set out below:

| Company name  | Place of incorporation | Date of incorporation | Registered capital | Percentage of attributable equity interest |         |  |         |  | Principal activities   | Statutory auditor |
|---|------------------------|-----------------------|--------------------|--|---------|--|---------|--|--|-------------------|
|   |                        |                       |                    | As at December 31,                         |         | As at the date of June 30, this report | 2016    | 2017   |  |                   |
|   |                        |                       |                    | 2014                                       | 2015    |  |         |  |  |                   |
| Shanghai Yuewen Information Technology Co., Ltd. (“上海閱文信息技術有限公司”) .....                   | PRC                    | April 2, 2014         | RMB10,000,000      | 100.00%                                    | 100.00% | 100.00%                                | 100.00% | Online reading business, intellectual property operations and online advertising | Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (“上海兆信會計師事務所有限公司”) |                   |
| Shanghai Xuanting Entertainment Information Technology Co., Ltd. (“上海玄霆娛樂信息技術有限公司”) ..... | PRC                    | August 26, 2004       | RMB108,000,000     | 100.00%                                    | 100.00% | 100.00%                                | 100.00% | Online reading business  | Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (“上海兆信會計師事務所有限公司”) |                   |
| Tianjin Zhongzhi Bowen Book Co., Ltd. (“天津中智博文圖書有限公司”) .....                              | PRC                    | March 1, 2010         | RMB11,626,440      | 66.50%                                     | 66.50%  | 89.55%                                 | 89.55%  | Physical book business   | Beijing Jinrui Yongda Accountants Office Co., Ltd. (“北京金瑞永大會計師事務所有限公司”)    |                   |

| Company name   | Place of incorporation | Date of incorporation | Registered capital | Percentage of attributable equity interest |         |           | Principal activities | Statutory auditor                |   |
|--|------------------------|-----------------------|--------------------|--|---------|-----------|----------------------|----------------------------------|---|
|  |                        |                       |                    | As at December 31,                         |         | As at the |                      |                                  |   |
|  |                        |                       |                    | 2014                                       | 2015    | 2016      |                      |                                  | June 30, 2017   |
| Xiaoxiang College (Tianjin) Culture Development Co., Ltd. (“瀟湘書院(天津)文化發展有限公司”) ..... | PRC                    | June 8, 2010          | RMB10,000,000      | 100.00%                                    | 100.00% | 100.00%   | 100.00%              | Online reading business          | Suzhou Easthigh Certified Public Accountants Co., Ltd. (“蘇州東恒會計師事務所(普通合夥)”) |
| Tianjin Huawen Tianxia Book Co., Ltd. (“天津華文天下圖書有限公司”) .....                         | PRC                    | June 23, 2009         | RMB10,204,100      | 100.00%                                    | 100.00% | 100.00%   | 100.00%              | Physical book business           | Beijing Jinrui Yongda Accountants Office Co., Ltd. (“北京金瑞永大會計師事務所有限公司”)     |
| Shengyun Information Technology (Tianjin) Co., Ltd. (“盛雲信息技術(天津)有限公司”) .....         | PRC                    | June 13, 2013         | US\$30,000,000     | 100.00%                                    | 100.00% | 100.00%   | 100.00%              | Intellectual property management | Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (“上海兆信會計師事務所有限公司”)  |
| Beijing Hongxiu Tianxiang Technology Development Co., Ltd. (“北京紅袖添香科技發展有限公司”)        | PRC                    | March 20, 2006        | RMB10,000,000      | 100.00%                                    | 100.00% | 100.00%   | 100.00%              | Online reading business          | Beijing Yongenlihe Accountants Co., Ltd. (“北京永恩力合會計師事務所有限公司”)               |

| Company name  | Place of incorporation | Date of incorporation | Registered capital | Percentage of attributable equity interest |         |                               |         |         | Principal activities   | Statutory auditor  |      |
|---|------------------------|-----------------------|--------------------|--|---------|-------------------------------|---------|---------|--|--|------|
|   |                        |                       |                    | As at December 31,                         |         | As at the date of this report | 2017    | 2016    |  |  | 2015 |
|   |                        |                       |                    | 2014                                       | 2013    |                               |         |         |  |  |      |
| Shenzhen Lazy Online Technology Co., Ltd. (“深圳市懶人在線科技有限公司”) ...         | PRC                    | March 27, 2012        | RMB10,000,000      | 51.00%                                     | 51.00%  | 51.00%                        | 51.00%  | 51.00%  | Online radio service   | Shenzhen Huiheng Certified Public Accountants GP (“深圳惠恒會計師事務所(普通合夥)”)      |      |
| Beijing Wangwen Xinyue Technology Co., Ltd. (“北京網文欣閱科技有限公司”) ...        | PRC                    | March 12, 2010        | RMB10,000,000      | 100.00%                                    | 100.00% | 100.00%                       | 100.00% | 100.00% | Online reading business  | Beijing Jinrui Yongda Accountants Office Co., Ltd. (“北京金瑞永大會計師事務所有限公司”)    |      |
| Shanghai Hongwen Networking Technology Co., Ltd. (“上海宏文網絡科技有限公司”) ..... | PRC                    | October 22, 2008      | RMB10,000,000      | 100.00%                                    | 100.00% | 100.00%                       | 100.00% | 100.00% | Online reading business, intellectual property operations and online advertising | Shanghai Zhaoxin Certified Public Accountants Co., Ltd. (“上海兆信會計師事務所有限公司”) |      |

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*Note:*

The English names of the subsidiaries represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

## 42 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

| Names of the major related parties                              | Nature of relationship                          |
|---|---|
| Tencent Holdings Limited .....                                  | Ultimate holding company                        |
| Oriental Power Holdings Limited .....                           | Controlled by the same ultimate holding company |
| Shenzhen Tencent Computer Systems Company Limited .....         | Controlled by the same ultimate holding company |
| Shenzhen Shiji Kaixuan Technology Company Limited .....         | Controlled by the same ultimate holding company |
| Tencent Technology (Shenzhen) Company Limited .....             | Controlled by the same ultimate holding company |
| Tencent Cloud Computing (Beijing) Company Limited .....         | Controlled by the same ultimate holding company |
| Beijing Tencent Culture Media Company Limited .....             | Controlled by the same ultimate holding company |
| Nanjing Wang Dian Technology Company Limited .....              | Controlled by the same ultimate holding company |
| Tencent Technology (Beijing) Company Limited .....              | Controlled by the same ultimate holding company |
| Tencent Asset Management Limited .....                          | Controlled by the same ultimate holding company |
| Shanghai Tencent Penguin Film Culture Co., Ltd .....            | Controlled by the same ultimate holding company |
| Shanghai Tencent Film Culture Co., Ltd. ....                    | Controlled by the same ultimate holding company |
| Qinghai Lake Investment Limited .....                           | Controlled by the same ultimate holding company |
| Trust Bridge Partners New Economy Equity Investment I LLP ..... | Minority shareholder of the Company             |
| Beijing Jinjiang Networking Technology Co., Ltd. ....           | Joint venture of the Group                      |
| Tianjin Yuexin Culture and Media Co., Ltd. ....                 | Joint venture of the Group                      |
| Beijing Shenlaishenwang Media Co., Ltd. ....                    | Associate of the Group                          |
| Shanghai Chuwan Information Technology Co., Ltd. ....           | Associate of the Group                          |
| Zhejiang Huayun Digital Technology Co., Ltd. ....               | Associate of the Group                          |
| Wuhan Weidao Technology Co., Ltd. ....                          | Associate of the Group                          |
| Shannan Guangqi Studio Co., Ltd. ....                           | Associate of the Group                          |



| Names of the major related parties                             | Nature of relationship                       |
|--|--|
| Ningbo Yüewen Yuandongli Culture Industry Investment LLP ..... | Associate of the Group                       |
| Shanghai Foch Film Culture Investment Co., Ltd. ....           | Associate of the Group (Note 25 and Note 19) |
| JD.com, Inc. ....  | Associate of the ultimate holding company    |
| Beijing Sogou Technology Development Co., Ltd. ....            | Associate of the ultimate holding company    |
| Khorgas Linmon Pictures Media Co., Ltd. ....                   | Associate of the ultimate holding company    |
| Shanghai Linmon Pictures Media Co., Ltd. ....                  | Associate of the ultimate holding company    |

The following transactions were carried out with related parties:

- (a) *Copyrights licensing, provision of advertising and management services and sales of physical books — recognized in revenue (before net of sales tax and related surcharges)*

|  | Year ended December 31, |               |                | Six months ended June 30, |                |
|--|-------------------------|---------------|----------------|---------------------------|----------------|
|  | 2014                    | 2015          | 2016           | 2016                      | 2017           |
|  | RMB'000                 | RMB'000       | RMB'000        | RMB'000                   | RMB'000        |
|  |                         |               |                | (Unaudited)               |                |
| Entities controlled by the same ultimate holding company ..... | 1,176                   | 38,235        | 79,233         | 6,690                     | 73,576         |
| Associates of the ultimate holding company .....               | —                       | 16,168        | 34,225         | 13,841                    | 40,388         |
| Associates of the Group .....                                  | 2,195                   | 30,129        | 57,136         | 56,983                    | 1,164          |
| Joint venture of the Group .....                               | 128                     | —             | —              | —                         | 3,774          |
|  | <u>3,499</u>            | <u>84,532</u> | <u>170,594</u> | <u>77,514</u>             | <u>118,902</u> |

(b) *Receipts of services — recognized in cost of revenues*

|   | Year ended December 31, |               |                | Six months ended June 30, |                |
|---|-------------------------|---------------|----------------|---------------------------|----------------|
|   | 2014                    | 2015          | 2016           | 2016                      | 2017           |
|   | RMB'000                 | RMB'000       | RMB'000        | RMB'000                   | RMB'000        |
|   |                         |               |                | (Unaudited)               |                |
| Entities controlled by the same<br>ultimate holding company ..... | 22,969                  | 46,058        | 177,641        | 58,329                    | 142,280        |
| Associates of the ultimate<br>holding company .....               | —                       | —             | —              | —                         | 9,763          |
| Associates of the Group .....                                     | —                       | 62            | 49             | 23                        | 5,013          |
| Joint venture of the Group .....                                  | —                       | 2,099         | 3,187          | 988                       | 2,093          |
|   | <u>22,969</u>           | <u>48,219</u> | <u>180,877</u> | <u>59,340</u>             | <u>159,149</u> |

(c) *Receipts of services — recognized in general and administrative expenses and selling and marketing expenses*

|   | Year ended December 31, |               |                | Six months ended June 30, |               |
|---|-------------------------|---------------|----------------|---------------------------|---------------|
|   | 2014                    | 2015          | 2016           | 2016                      | 2017          |
|   | RMB'000                 | RMB'000       | RMB'000        | RMB'000                   | RMB'000       |
|   |                         |               |                | (Unaudited)               |               |
| Entities controlled by the same<br>ultimate holding company ..... | 4,094                   | 40,621        | 106,328        | 50,787                    | 27,410        |
| Associates of the ultimate<br>holding company .....               | —                       | 651           | —              | —                         | 147           |
|   | <u>4,094</u>            | <u>41,272</u> | <u>106,328</u> | <u>50,787</u>             | <u>27,557</u> |

(d) *Interest income*

|   | Year ended December 31, |         |         | Six months ended June 30, |         |
|---|-------------------------|---------|---------|---------------------------|---------|
|   | 2014                    | 2015    | 2016    | 2016                      | 2017    |
|   | RMB'000                 | RMB'000 | RMB'000 | RMB'000                   | RMB'000 |
|   |                         |         |         | (Unaudited)               |         |
| Entities controlled by the same<br>ultimate holding company ..... | —                       | 4,905   | 14,861  | 6,564                     | 7,500   |

(e) *Interest expense*

|   | Year ended December 31, |         |         | Six months ended June 30, |         |
|---|-------------------------|---------|---------|---------------------------|---------|
|   | 2014                    | 2015    | 2016    | 2016                      | 2017    |
|   | RMB'000                 | RMB'000 | RMB'000 | RMB'000                   | RMB'000 |
|   |                         |         |         | (Unaudited)               |         |
| Entities controlled by the same ultimate holding company..... | 150                     | 7,600   | 22,642  | 10,199                    | 12,237  |

The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

(f) *Balances with related parties*

|  | As at December 31, |                |                | As at June 30, |
|--|--------------------|----------------|----------------|----------------|
|  | 2014               | 2015           | 2016           | 2017           |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| <i>Trade receivables</i>                                       |                    |                |                |                |
| Entities controlled by the same ultimate holding company ..... | 45,545             | 60,199         | 388,886        | 293,147        |
| Associates of the ultimate holding company .....               | 327                | 866            | 7,245          | 28,894         |
| Associates of the Group .....                                  | 143                | 12,551         | —              | —              |
| Joint venture of the Group .....                               | 539                | 539            | 539            | 539            |
|  | <u>46,554</u>      | <u>74,155</u>  | <u>396,670</u> | <u>322,580</u> |
| <i>Prepayments, deposits and other receivables</i>             |                    |                |                |                |
| Entities controlled by the same ultimate holding company ..... | 10                 | 308,405        | 534,875        | 217,328        |
| Associates of the ultimate holding company .....               | —                  | —              | —              | 80             |
|  | <u>10</u>          | <u>308,405</u> | <u>534,875</u> | <u>217,408</u> |

*Note:* Trade receivables from entities controlled by the same ultimate holding company are mainly arising from the collection of payments from the Group's customers on behalf of the Group.

Apart from the loan and interest receivables due from Oriental Power Holdings Limited and Tencent Asset Management Limited as discussed in Note 23(d), other receivables due from related parties are unsecured, interest-free and repayable on demand. No provisions are made against receivables from related parties.

|  | As at December 31, |               |               | As at June 30, |
|--|--------------------|---------------|---------------|----------------|
|  | 2014               | 2015          | 2016          | 2017           |
|  | RMB'000            | RMB'000       | RMB'000       | RMB'000        |
| <i>Trade payables</i>  |                    |               |               |                |
| Entities controlled by the same ultimate holding company ..... | 22,067             | 29,268        | 66,415        | 84,109         |
| Associates of the Group.....                                   | —                  | 5             | 6             | 170            |
| Joint ventures of the Group.....                               | —                  | 556           | 898           | 1,176          |
|  | <u>22,067</u>      | <u>29,829</u> | <u>67,319</u> | <u>85,455</u>  |

|  | As at December 31, |               |                | As at June 30, |
|--|--------------------|---------------|----------------|----------------|
|  | 2014               | 2015          | 2016           | 2017           |
|  | RMB'000            | RMB'000       | RMB'000        | RMB'000        |
| <i>Other payables and accruals</i>                             |                    |               |                |                |
| Entities controlled by the same ultimate holding company ..... | 49,478             | 85,810        | 138,074        | 65,287         |
| Minority shareholder.....                                      | 57,300             | —             | —              | —              |
| Associates of the ultimate holding company .....               | 1,000              | 2,798         | —              | —              |
| Associates of the Group.....                                   | —                  | 2,500         | 4,620          | 3,456          |
|  | <u>107,778</u>     | <u>91,108</u> | <u>142,694</u> | <u>68,743</u>  |

The payables due to related parties are unsecured, interest-free and are repayable on demand.

|  | As at December 31, |                |                | As at June 30, |
|--|--------------------|----------------|----------------|----------------|
|  | 2014               | 2015           | 2016           | 2017           |
|  | RMB'000            | RMB'000        | RMB'000        | RMB'000        |
| <i>Borrowings</i>  |                    |                |                |                |
| Entities controlled by the same ultimate holding company (Note 31) ..... | —                  | 300,000        | 541,622        | 240,646        |
|  | <u>—</u>           | <u>300,000</u> | <u>541,622</u> | <u>240,646</u> |

*Key management personnel compensations*

Key management includes directors. The compensations paid or payable to key management for employee services are shown below:

|   | Year ended December 31, |               |               | Six months ended June 30, |               |
|---|-------------------------|---------------|---------------|---------------------------|---------------|
|   | 2014                    | 2015          | 2016          | 2016                      | 2017          |
|   | RMB'000                 | RMB'000       | RMB'000       | RMB'000                   | RMB'000       |
| Salaries, wages and bonuses .....   | 6,440                   | 6,880         | 9,944         | 3,528                     | 4,092         |
| Other social security costs,<br>housing benefits and other<br>employee benefits ..... | 148                     | 269           | 275           | 134                       | 139           |
| Pension costs — defined<br>contribution plans .....                                   | 258                     | 176           | 184           | 91                        | 95            |
| Share-based compensation<br>expenses .....  | 960                     | 40,264        | 23,962        | 11,884                    | 7,397         |
|   | <u>7,806</u>            | <u>47,589</u> | <u>34,365</u> | <u>15,637</u>             | <u>11,723</u> |

**43 Contingencies**

The Group did not have any material contingent liabilities as at December 31, 2014, 2015 and 2016 and June 30, 2017.

**44 Subsequent Events**

On August 7, 2017, Migu Digital Media Co., Ltd. (“Migu”) filed a lawsuit and alleged that the Company has breached the business cooperation contracts entered into by Migu and several subsidiaries of the Group, and the Group shall take responsibility of the breach and pay damages to Migu. The case is at preliminary stage, but the Group believes the claim is without merit and will defend this action vigorously. The Group is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss, if any, given the current status of the litigation. No accrual has been recorded by the Group as at June 30, 2017 in respect of this case.

In September 2017, 7,180,000 RSUs have been granted to certain 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 a date as soon as practicable after the RSUs vest and the completion of an IPO of the Company.

### III. ADDITIONAL FINANCIAL INFORMATION OF CLOUDARY CORPORATION FOR THE PRE-ACQUISITION PERIOD

Cloudary Corporation was acquired by the Group in December 2014. Following is the financial information of Cloudary Corporation for the year ended December 31, 2014 (also being the pre-acquisition period from January 1, 2014 to December 31, 2014). Cloudary and its subsidiaries are hereafter referred to as Cloudary Corporation Group.

#### (1) Consolidated statement of comprehensive loss

|  | Note | Year ended<br>December 31,<br>2014 |
|--|------|------------------------------------|
|  |      | RMB'000                            |
| <b>Revenues</b> .....  | C1   | 1,134,558                          |
| Cost of revenues .....   | C2   | <u>(709,022)</u>                   |
| <b>Gross profit</b> .....  |      | 425,536                            |
| Selling and marketing expenses .....                                   | C2   | (260,756)                          |
| General and administrative expenses .....                              | C2   | (217,860)                          |
| Other losses, net .....  | C3   | <u>(7,262)</u>                     |
| <b>Operating loss</b> .....  |      | (60,342)                           |
| Finance costs .....  | C4   | (71,762)                           |
| Finance income .....   | C5   | 21,132                             |
| Share of profit of investments accounted for using equity method ..... | C9   | <u>10,727</u>                      |
| <b>Loss before income tax</b> .....                                    |      | (100,245)                          |
| Income tax expense .....   | C6   | <u>(4,197)</u>                     |
| <b>Loss for the year</b> .....   |      | <u><u>(104,442)</u></u>            |
| <b>Other comprehensive loss</b>  |      |                                    |
| <i>Items that may be subsequently reclassified to profit or loss</i>   |      |                                    |
| Currency translation differences .....                                 |      | <u>(5,454)</u>                     |
| <b>Total comprehensive loss for the year</b> .....                     |      | <u><u>(109,896)</u></u>            |
| <b>Loss attributable to:</b>   |      |                                    |
| - Equity holders of Cloudary Corporation .....                         |      | (99,747)                           |
| - Non-controlling interests .....                                      |      | <u>(4,695)</u>                     |
|  |      | <u><u>(104,442)</u></u>            |
| <b>Total comprehensive loss attributable to:</b>                       |      |                                    |
| - Equity holders of Cloudary Corporation .....                         |      | (105,201)                          |
| - Non-controlling interests .....                                      |      | <u>(4,695)</u>                     |
|  |      | <u><u>(109,896)</u></u>            |

## (2) Consolidated statement of financial position

|  | Note | As at<br>December 31,<br>2014 |
|--|------|-------------------------------|
|  |      | RMB'000                       |
| <b>ASSETS</b>  |      |                               |
| <b>Non-current assets</b>  |      |                               |
| Property, plant and equipment .....  | C7   | 23,823                        |
| Intangible assets .....  | C8   | 264,803                       |
| Investments accounted for using the equity method .....                            | C9   | 45,676                        |
| Deferred income tax assets .....   | C10  | 32,922                        |
| Prepayments, deposits and other assets .....                                       | C11  | 9,427                         |
|  |      | <u>376,651</u>                |
| <b>Current assets</b>  |      |                               |
| Inventories .....  | C12  | 153,120                       |
| Trade and notes receivables .....  | C13  | 185,067                       |
| Prepayments, deposits and other assets .....                                       | C11  | 51,805                        |
| Other investments .....  | C14  | 66,486                        |
| Term deposits .....  |      | 7,909                         |
| Cash and cash equivalents .....  | C15  | 621,895                       |
|  |      | <u>1,086,282</u>              |
| <b>Total assets</b> .....  |      | <u>1,462,933</u>              |
| <b>EQUITY</b>  |      |                               |
| <b>Capital and reserves attributable to equity holders of Cloudary Corporation</b> |      |                               |
| Share capital .....  |      | 19,245                        |
| Share premium .....  |      | 639,799                       |
| Other reserves .....   |      | (99,227)                      |
| Accumulated losses .....   |      | (390,615)                     |
|  |      | <u>169,202</u>                |
| <b>Non-controlling interests</b> .....   |      | <u>61,148</u>                 |
| <b>Total equity</b> .....  |      | <u>230,350</u>                |
| <b>LIABILITIES</b>   |      |                               |
| <b>Non-current liabilities</b>   |      |                               |
| Put option liability .....   | C17  | 65,396                        |
| Deferred income tax liabilities .....  | C10  | 21,701                        |
| Convertible bonds .....  | C16  | 471,775                       |
| Other non-current liabilities .....  |      | 14,556                        |
|  |      | <u>573,428</u>                |
| <b>Current liabilities</b>   |      |                               |
| Borrowings .....   | C18  | 200,000                       |
| Trade payables .....   | C19  | 160,167                       |
| Other payables and accruals .....  | C20  | 196,435                       |
| Deferred revenue .....   |      | 78,902                        |
| Current income tax liabilities .....   |      | 23,651                        |
|  |      | <u>659,155</u>                |
| <b>Total liabilities</b> .....   |      | <u>1,232,583</u>              |
| <b>Total equity and liabilities</b> .....  |      | <u>1,462,933</u>              |

## (3) Consolidated statement of cash flows

|   | Note | As at<br>December 31,<br>2014<br><u>RMB'000</u> |
|---|------|---|
| <b>Cash flows from operating activities</b>                                     |      |   |
| Cash provided by operations .....   | C23  | 127,683   |
| Income tax paid .....   |      | <u>(35,068)</u>                                 |
| <b>Net cash flows generated from operating activities</b> .....                 |      | <u>92,615</u>                                   |
| <b>Cash flows from investing activities</b>                                     |      |   |
| Payments for business combinations, net of cash acquired .....                  | C17  | (20,444)  |
| Placement of term deposits with initial term over three months .....            |      | (7,909)   |
| Receipt from maturity of term deposit with initial term over three months ..... |      | 20,000  |
| Acquisition of investments in subsidiaries .....                                |      | (2,550)   |
| Purchase of property, plant and equipment .....                                 |      | (13,090)  |
| Purchase of intangible assets .....   |      | (132,850)                                       |
| Proceeds from disposals of property, plant and equipment .....                  |      | 194   |
| Proceeds from collection of loans receivable .....                              |      | 197,970   |
| Payment for short-term investments .....  |      | (2,421,868)                                     |
| Proceeds from disposals of short-term investments .....                         |      | 2,647,994                                       |
| Interest received .....   |      | <u>18,510</u>                                   |
| <b>Net cash flows generated from investing activities</b> .....                 |      | <u>285,957</u>                                  |
| <b>Cash flows from financing activities</b>                                     |      |   |
| Repayment of borrowing .....  |      | (200,000)                                       |
| Settlement related to the acquisition of non-controlling interests .....        |      | <u>(96,254)</u>                                 |
| <b>Net cash flows used in financing activities</b> .....                        |      | <u>(296,254)</u>                                |
| Net increase in cash and cash equivalents .....                                 |      | 82,318  |
| Cash and cash equivalents at beginning of the year .....                        |      | 536,682   |
| Exchange gains on cash and cash equivalents .....                               |      | <u>2,895</u>                                    |
| <b>Cash and cash equivalents at end of the year</b> .....                       |      | <u><u>621,895</u></u>                           |



## (4) Consolidated statement of changes in equity

|   | Attributable to equity owners of Cloudary Corporation |         |          |             |           | Non-        |           |
|---|---|---------|----------|-------------|-----------|-------------|-----------|
|   | Share   | Share   | Other    | Accumulated | Sub-total | controlling | Total     |
|   | capital   | premium | reserves | Losses      |           | interests   |           |
|   | RMB'000   | RMB'000 | RMB'000  | RMB'000     | RMB'000   | RMB'000     | RMB'000   |
| <b>As at January 1, 2014</b> .....  | 16,651  | —       | (49,213) | (285,527)   | (318,089) | 33,590      | (284,499) |
| <b>Comprehensive loss</b>   |   |         |          |             |           |             |           |
| Loss for the year.....  | —   | —       | —        | (99,747)    | (99,747)  | (4,695)     | (104,442) |
| Other comprehensive loss  |   |         |          |             |           |             |           |
| - Currency translation differences .....  | —   | —       | (5,454)  | —           | (5,454)   | —           | (5,454)   |
| <b>Total comprehensive loss for the year</b> .....  | —   | —       | (5,454)  | (99,747)    | (105,201) | (4,695)     | (109,896) |
| <b>Transaction with owners</b>  |   |         |          |             |           |             |           |
| Conversion of Series A and Series B Preferred Shares into Class B ordinary shares (Note C21)..... | 2,594   | 639,799 | (18,264) | —           | 624,129   | —           | 624,129   |
| Share-based compensation expenses .....   | —   | —       | 32,476   | —           | 32,476    | —           | 32,476    |
| Initial recognition of put option liability (Note C17) .....                                      | —   | —       | (64,113) | —           | (64,113)  | —           | (64,113)  |
| Non-controlling interests arising from business combinations (Note C17)...                        | —   | —       | —        | —           | —         | 32,253      | 32,253    |
| Profit appropriations to statutory reserves.....  | —   | —       | 5,341    | (5,341)     | —         | —           | —         |
| <b>Total transactions with owners recognized directly in equity for the year</b> .....            | 2,594   | 639,799 | (44,560) | (5,341)     | 592,492   | 32,253      | 624,745   |
| <b>As at December 31, 2014</b> ...  | 19,245  | 639,799 | (99,227) | (390,615)   | 169,202   | 61,148      | 230,350   |

## C1 Revenues

|  | Year ended<br>December 31,<br>2014 |
|--|------------------------------------|
|  | <u>RMB'000</u>                     |
| Online paid reading                        |                                    |
| - on Cludary's own platform products ..... | 292,968                            |
| - on third-party platforms .....           | 252,560                            |
| Revenue from sales of physical books.....  | 261,033                            |
| Intellectual property operations .....     | 113,423                            |
| Others .....                               | <u>214,574</u>                     |
|  | <u>1,134,558</u>                   |

## C2 Expenses by nature

|   | Year ended<br>December 31,<br>2014 |
|---|------------------------------------|
|   | <u>RMB'000</u>                     |
| Content costs (Note) .....  | 329,752                            |
| Promotion and advertising expenses .....  | 152,258                            |
| Amortisation of intangible assets (Note C8) .....   | 117,699                            |
| Cost of inventories sold .....  | 124,150                            |
| Employee benefits expenses .....  | 157,593                            |
| Provision for doubtful receivables .....  | 55,157                             |
| Provision for inventory obsolescence .....  | 54,755                             |
| Payment handling costs .....  | 27,329                             |
| Compensation cost .....   | 26,634                             |
| Operating lease rentals .....   | 22,750                             |
| Travelling, entertainment and general office expenses .....   | 18,631                             |
| Bandwidth and server custody fees .....   | 13,198                             |
| Professional service fees .....   | 14,727                             |
| Logistic expenses .....   | 11,327                             |
| Game development outsourcing costs .....  | 11,239                             |
| Depreciation of property, plant and equipment (Note C7) .....   | 9,076                              |
| Auditors' remuneration .....  | 5,662                              |
| Online reading platform distribution costs .....  | 4,482                              |
| Others .....  | <u>31,219</u>                      |
| <b>Total cost of revenues, selling and marketing expenses and general and<br/>administrative expenses .....</b> | <u><b>1,187,638</b></u>            |

*Note:*

Other than the initial acquisition of the copyright from writers, the Cloudary Corporation Group also pays a certain percentage of the revenues earned on such content posted through its self-owned and third party platforms. In addition, some writers share certain percentage of the revenue earned on virtual gift purchases pursuant to their royalty arrangements. The amounts payable to writers under the revenue sharing arrangements with the writers are reported as expense under cost of revenues in the Cloudary Corporation Group's consolidated statements of comprehensive income or loss.

**C3 Other losses — net**

|   | Year ended<br>December 31,<br>2014 |
|---|------------------------------------|
|   | RMB'000                            |
| Fair value gain of consideration payable related to the acquisition of non-controlling interests (Note C20) ..... | (66,874)                           |
| Government subsidies .....  | (23,132)                           |
| Fair value gains on financial assets at fair value through profit or loss (Note C14) .....                        | (15,570)                           |
| Gain on copyright infringements .....   | (9,125)                            |
| Fair value loss of convertible bonds (Note C16) .....   | 57,415                             |
| Fair value loss of Series B Preferred Shares (Note C21) .....   | 45,145                             |
| Impairment loss of investment in an associate .....   | 6,388                              |
| Loss on disposal of property, plant and equipment .....   | 3,972                              |
| Impairment loss of intangible assets (Note C8) .....  | 5,243                              |
| Others .....  | 3,800                              |
|   | <u>7,262</u>                       |

**C4 Finance costs**

|  | Year ended<br>December 31,<br>2014 |
|--|------------------------------------|
|  | RMB'000                            |
| Interest expense .....                                     | 54,977                             |
| Accretion on Series A Preferred Shares (Note C21) .....    | 15,502                             |
| Accretion charges of put option liability (Note C17) ..... | 1,283                              |
|  | <u>71,762</u>                      |

## C5 Finance income

|  | Year ended<br>December 31,<br>2014 |
|--|------------------------------------|
|  | RMB'000                            |
| Interest income on bank deposits ..... | <u>21,132</u>                      |

## C6 Income tax expense

(i) *Cayman Islands CIT*

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

(ii) *Hong Kong profits tax*

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

(iii) *PRC CIT*

CIT provision was made on the estimated assessable profits of entities within the Cloudary Corporation Group incorporated in the PRC for the year ended December 31, 2014, 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% in 2014.

Certain subsidiaries of the Cloudary Corporation 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 year ended December 31, 2014 according to the applicable CIT Law.

|                                      | Year ended<br>December 31,<br>2014 |
|--------------------------------------|------------------------------------|
|                                      | RMB'000                            |
| Current tax .....                    | 19,741                             |
| Deferred income tax (Note C10) ..... | <u>(15,544)</u>                    |
| Income tax expense .....             | <u>4,197</u>                       |

The tax on the Cloudary Corporation Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2014, being the tax rate of the major subsidiaries of the Cloudary Corporation Group. The difference is analysed as follows:

|   | Year ended<br>December 31,<br>2014 |
|---|------------------------------------|
|   | RMB'000                            |
| Loss before income tax .....  | (100,245)                          |
| Share of profit of investments accounted for using equity method .....  | (10,727)                           |
| Tax calculated at a tax rate of 25% .....   | (27,743)                           |
| Effects of preferential tax rates applicable to different subsidiaries of the<br>Cloudary Corporation Group ..... | (2,258)                            |
| Unrecognized deferred income tax assets .....   | 13,935                             |
| Non-deductible expenses less non-taxable income .....   | 21,230                             |
| Research and development tax credit .....   | (967)                              |
| Income tax expense .....  | <u>4,197</u>                       |

#### C7 Property, plant and equipment

|                                  | Computer<br>equipment | Leasehold<br>improvements | Furniture<br>and fixtures | Motor<br>vehicles | Construction<br>in progress | Total           |
|----------------------------------|-----------------------|---------------------------|---------------------------|-------------------|-----------------------------|-----------------|
|                                  | RMB'000               | RMB'000                   | RMB'000                   | RMB'000           | RMB'000                     | RMB'000         |
| <b>Cost:</b>                     |                       |                           |                           |                   |                             |                 |
| At January 1, 2014 .....         | 40,077                | 9,847                     | 2,208                     | 1,038             | —                           | 53,170          |
| Additions .....                  | 10,961                | 1,205                     | 192                       | 330               | 402                         | 13,090          |
| Business combinations .....      | 329                   | —                         | 57                        | —                 | —                           | 386             |
| Disposals .....                  | (245)                 | (9,617)                   | (136)                     | —                 | —                           | (9,998)         |
| At December 31, 2014 .....       | <u>51,122</u>         | <u>1,435</u>              | <u>2,321</u>              | <u>1,368</u>      | <u>402</u>                  | <u>56,648</u>   |
| <b>Accumulated depreciation:</b> |                       |                           |                           |                   |                             |                 |
| At January 1, 2014 .....         | (23,767)              | (4,175)                   | (1,278)                   | (361)             | —                           | (29,581)        |
| Depreciation .....               | (6,809)               | (1,774)                   | (300)                     | (193)             | —                           | (9,076)         |
| Disposals .....                  | 189                   | 5,542                     | 101                       | —                 | —                           | 5,832           |
| At December 31, 2014 .....       | <u>(30,387)</u>       | <u>(407)</u>              | <u>(1,477)</u>            | <u>(554)</u>      | <u>—</u>                    | <u>(32,825)</u> |
| <b>Net carrying amount:</b>      |                       |                           |                           |                   |                             |                 |
| At January 1, 2014 .....         | <u>16,310</u>         | <u>5,672</u>              | <u>930</u>                | <u>677</u>        | <u>—</u>                    | <u>23,589</u>   |
| At December 31, 2014 .....       | <u>20,735</u>         | <u>1,028</u>              | <u>844</u>                | <u>814</u>        | <u>402</u>                  | <u>23,823</u>   |

## C8 Intangible assets

|                                 | Distribution   |                 |                           |                       |                         |                | Total            |
|---------------------------------|----------------|-----------------|---------------------------|-----------------------|-------------------------|----------------|------------------|
|                                 | Goodwill       | Trademarks      | Copyrights<br>of contents | Writers'<br>contracts | channel<br>relationship | Software       |                  |
|                                 | RMB'000        | RMB'000         | RMB'000                   | RMB'000               | RMB'000                 | RMB'000        | RMB'000          |
| <b>Cost:</b>                    |                |                 |                           |                       |                         |                |                  |
| At January 1, 2014 .....        | 47,541         | 40,983          | 272,082                   | 16,520                | 67,520                  | 5,921          | 450,567          |
| Additions .....                 | —              | —               | 132,344                   | —                     | —                       | 506            | 132,850          |
| Business combination .....      | 15,751         | 30,174          | 2,059                     | —                     | 9,732                   | —              | 57,716           |
| At December 31, 2014 ....       | <u>63,292</u>  | <u>71,157</u>   | <u>406,485</u>            | <u>16,520</u>         | <u>77,252</u>           | <u>6,427</u>   | <u>641,133</u>   |
| <b>Accumulated amortisation</b> |                |                 |                           |                       |                         |                |                  |
| At January 1, 2014 .....        | —              | (15,720)        | (189,923)                 | (11,128)              | (31,647)                | (1,881)        | (250,299)        |
| Amortisation .....              | —              | (1,787)         | (102,820)                 | (2,696)               | (8,926)                 | (1,470)        | (117,699)        |
| At December 31, 2014 ....       | <u>—</u>       | <u>(17,507)</u> | <u>(292,743)</u>          | <u>(13,824)</u>       | <u>(40,573)</u>         | <u>(3,351)</u> | <u>(367,998)</u> |
| <b>Impairment:</b>              |                |                 |                           |                       |                         |                |                  |
| At January 1, 2014 .....        | —              | (3,089)         | —                         | —                     | —                       | —              | (3,089)          |
| Additions .....                 | (1,446)        | (3,697)         | —                         | —                     | (100)                   | —              | (5,243)          |
| At December 31, 2014 ....       | <u>(1,446)</u> | <u>(6,786)</u>  | <u>—</u>                  | <u>—</u>              | <u>(100)</u>            | <u>—</u>       | <u>(8,332)</u>   |
| <b>Net carrying amount:</b>     |                |                 |                           |                       |                         |                |                  |
| At January 1, 2014 .....        | <u>47,541</u>  | <u>22,174</u>   | <u>82,159</u>             | <u>5,392</u>          | <u>35,873</u>           | <u>4,040</u>   | <u>197,179</u>   |
| At December 31, 2014 ....       | <u>61,846</u>  | <u>46,864</u>   | <u>113,742</u>            | <u>2,696</u>          | <u>36,579</u>           | <u>3,076</u>   | <u>264,803</u>   |

## C9 Investments accounted for using the equity method

|                       | As at<br>December 31,<br>2014 |
|-----------------------|-------------------------------|
|                       | RMB'000                       |
| Associates .....      | 4,949                         |
| A joint venture ..... | 40,727                        |
|                       | <u>45,676</u>                 |

(a) *Investment in associates*

|  | As at<br>December 31,<br>2014 |
|--|-------------------------------|
|  | <u>RMB'000</u>                |
| At the beginning of the year .....     | 10,709                        |
| Impairment provision .....             | (6,388)                       |
| Share of profit of the associate ..... | <u>628</u>                    |
| At the end of the year .....           | <u><u>4,949</u></u>           |

Set out below are the major associate of Cloudary Corporation as at December 31, 2014, which, in the opinion of the directors, are material to Cloudary Corporation. The associate as listed below have share capital consisting solely of ordinary shares, which held directly by Cloudary Corporation; the country of incorporation or registration is also its principal place of business.

| Name         | Date of<br>incorporation | Particulars of<br>issued shares<br>held<br>(RMB'000) | Place of<br>incorporation | Percentage of<br>ownership<br>interest<br>attributable to<br>the Cloudary<br>Corporation<br>Group | Principal activities  |
|--------------|--------------------------|--|---------------------------|---|---|
| Huayun ..... | May 23, 2011             | 10,000   | PRC                       | 61%   | Distribution of literature publications through digital cable TV platform |

Cloudary Corporation determined that it does not have a controlling financial interest in Huayun, but rather possesses substantive participating rights. Accordingly, Cloudary Corporation has accounted for this investment under the equity method.

The associate as listed above is a private company and there is no quoted market price available for its shares.

There is no contingent liabilities relating to Cloudary Corporation's interest in the associate.

**Summarized financial information of the Cloudary Corporation Group's associate**

Set out below are the summarized financial information for Huayun, which is accounted for using the equity method.

|                               | <u>Huayun</u>  |
|-------------------------------|----------------|
|                               | <u>2014</u>    |
|                               | <b>RMB'000</b> |
| Current assets .....          | 9,014          |
| Non-current assets .....      | 705            |
| Current liabilities .....     | 1,606          |
| Non-current liabilities ..... | —              |
| Revenues .....                | 7,613          |
| Profit for the year .....     | <u>1,030</u>   |

**Reconciliation of summarised financial information**

|                                      | <u>Huayun</u>  |
|--------------------------------------|----------------|
|                                      | <u>2014</u>    |
|                                      | <b>RMB'000</b> |
| <b>Opening net assets January 1,</b> | 7,083          |
| Profit for the year .....            | <u>1,030</u>   |
| <b>Closing net assets</b> .....      | <u>8,113</u>   |
| Interest in associates .....         | 61%            |
| Goodwill .....                       | —              |
| <b>Carrying value</b> .....          | <u>4,949</u>   |

Reconciliation of summarised financial information presented to the carrying amount of its interest in an associate.



(b) *Investment in a joint venture*

|  | As at<br>December 31,<br>2014 |
|--|-------------------------------|
|  | <u>RMB'000</u>                |
| At the beginning of the year .....         | 30,628                        |
| Share of profit of the joint venture ..... | 10,099                        |
| At the end of the year .....               | <u>40,727</u>                 |

Set out below is the joint venture of the Cloudary as at December 31, 2014. The joint venture as listed below has share capital consisting solely of ordinary shares, which held directly by the Cloudary; the country of incorporation or registration is also its principal place of business.

| Name          | Date of<br>incorporation | Particulars of<br>issued shares<br>held<br>(RMB'000) | Place of<br>incorporation | Percentage of<br>ownership<br>interest<br>attributable to<br>the Cloudary<br>Corporation<br>Group | Principal activities   |
|---------------|--------------------------|--|---------------------------|---|------------------------|
| Jinjiang..... | March 13, 2006           | 5,550  | PRC                       | 50%   | Online reading service |

**Summarised financial information of the Cloudary Corporation Group's joint venture**

Set out below are the summarised financial information for Jinjiang, which is accounted for using the equity method.

|                               | As at<br>December 31,<br>2014 |
|-------------------------------|-------------------------------|
|                               | <u>RMB'000</u>                |
| Current assets .....          | 95,011                        |
| Non-current assets .....      | 2,134                         |
| Current liabilities .....     | 20,515                        |
| Non-current liabilities ..... | 70                            |
| Revenues .....                | 71,329                        |
| Profit for the year .....     | <u>20,197</u>                 |

**Reconciliation of summarised financial information**

Reconciliation of summarised financial information presented to the carrying amount of its interest in a joint venture.

|  | <u>Jinjiang</u>      |
|--|----------------------|
|  | <u>2014</u>          |
|  | <b>RMB'000</b>       |
| <b>Opening net assets January 1,</b> ..... | 56,363               |
| Profit for the year .....                  | <u>20,197</u>        |
| <b>Closing net assets</b> .....            | <u>76,560</u>        |
| Interest in associates .....               | 50%                  |
| Goodwill .....                             | <u>2,447</u>         |
| <b>Carrying value</b> .....                | <u><u>40,727</u></u> |

**C10 Deferred income taxes**

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

|   | <u>As at</u>           |
|---|------------------------|
|   | <u>December 31,</u>    |
|   | <u>2014</u>            |
|   | <b>RMB'000</b>         |
| Deferred tax assets:                              |                        |
| - to be recovered after more than 12 months ..... | 7,771                  |
| - to be recovered within 12 months .....          | <u>25,151</u>          |
|   | <u><u>32,922</u></u>   |
| Deferred tax liabilities:                         |                        |
| - to be recovered after more than 12 months ..... | (16,483)               |
| - to be recovered within 12 months .....          | <u>(5,218)</u>         |
|   | <u><u>(21,701)</u></u> |

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

|   | Provision<br>for<br>inventory<br>obsolescence | Tax losses   | Advertising<br>expenses | Provision<br>for doubtful<br>receivables<br>and other<br>temporary<br>differences | Intangible<br>assets<br>acquired in<br>business<br>combination | Total         |
|---|---|--------------|-------------------------|---|--|---------------|
|   | RMB'000                                       | RMB'000      | RMB'000                 | RMB'000   | RMB'000  | RMB'000       |
| <b>As at January 1, 2014</b> .....        | 14,881  | —            | —                       | 7,166   | (16,765)   | 5,282         |
| Recognized in the profit or<br>loss ..... | 4,296   | 1,325        | 1,915                   | 3,148   | 4,860  | 15,544        |
| Business combination .....                | —   | —            | —                       | —   | (9,605)  | (9,605)       |
| <b>As at December 31, 2014</b> .....      | <u>19,177</u>                                 | <u>1,325</u> | <u>1,915</u>            | <u>10,314</u>   | <u>(21,510)</u>  | <u>11,221</u> |

Deferred income tax liabilities of approximately RMB9,893,000 have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled approximately RMB98,925,000 at December 31, 2014.

#### C11 Prepayments, deposits and other assets

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | RMB'000                       |
| Non-current:                                    |                               |
| Deferred compensation cost .....                | 5,600                         |
| Deposits and prepayments .....                  | <u>3,827</u>                  |
|   | <u>9,427</u>                  |
| Current:  |                               |
| Royalty advances .....                          | 9,074                         |
| Deferred license fees and related costs .....   | 16,503                        |
| Prepayments to vendors and online writers ..... | 9,114                         |
| Prepaid composition costs .....                 | 2,600                         |
| Staff advances .....                            | 5,518                         |
| Rental and other deposits .....                 | 1,639                         |
| Others .....                                    | <u>7,357</u>                  |
|   | <u>51,805</u>                 |

## C12 Inventories

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | <u>RMB'000</u>                |
| Raw materials .....                                     | 14,827                        |
| Work in progress .....                                  | 33,874                        |
| Inventories in self-owned warehouse .....               | 106,448                       |
| Inventories held with distributors on consignment ..... | <u>94,504</u>                 |
|   | 249,653                       |
| Less: provision for inventory obsolescence .....        | <u>(96,533)</u>               |
|   | <u><u>153,120</u></u>         |

The cost of inventories recognized as expense and included in “cost of revenues” amounted to approximately RMB178,905,000.

## C13 Trade and notes receivables

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | <u>RMB'000</u>                |
| Trade receivables .....                                   | 236,941                       |
| Notes receivable .....                                    | <u>389</u>                    |
|   | 237,330                       |
| Less: allowance for impairment of trade receivables ..... | <u>(52,263)</u>               |
|   | <u><u>185,067</u></u>         |

Movements on the Cloudary Corporation Group's allowance for impairment of trade receivables are as follows:

|  | As at<br>December 31,<br>2014 |
|--|-------------------------------|
|  | <u>RMB'000</u>                |
| As at January 1, 2014 .....                                    | 325                           |
| Provision for doubtful receivables .....                       | 52,139                        |
| Receivables written off during the year as uncollectable ..... | <u>(201)</u>                  |
| As at December 31, 2014 .....                                  | <u><u>52,263</u></u>          |

#### C14 Other investments

|                              | As at<br>December 31,<br>2014 |
|------------------------------|-------------------------------|
|                              | <u>RMB'000</u>                |
| Short-term investments ..... | <u><u>66,486</u></u>          |

The short-term investments represent investment in wealth management products issued by banks in the PRC with expected investment income rates for the year ended December 31, 2014 was 2.10%~5.40%. The returns on all of these wealth management products are not guaranteed, and therefore Cloudary designated them as financial assets at fair value through profit or loss. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy. Changes in fair value (realized and unrealized) of these financial assets had been recognized are recognized in "Other losses, net" in Cloudary's consolidated statement of loss.

The maximum exposure to credit risk at the reporting date is the carrying value of these short-term investments. None of these short-term investments are either past due or impaired.

## C15 Cash and cash equivalents and term deposits

|  | As at<br>December 31,<br>2014 |
|--|-------------------------------|
|  | <u>RMB'000</u>                |
| Bank balances and term deposits .....                            | 629,804                       |
| Less: Term deposits with initial term of over three months ..... | (7,909)                       |
| Cash and cash equivalents .....                                  | <u>621,895</u>                |
| Maximum exposure to credit risk .....                            | <u><u>629,804</u></u>         |

Bank balances and term deposits are denominated in the following currencies:

|              | As at<br>December 31,<br>2014 |
|--------------|-------------------------------|
|              | <u>RMB'000</u>                |
| US\$ .....   | 378,878                       |
| RMB .....    | 250,521                       |
| Others ..... | <u>405</u>                    |
|              | <u><u>629,804</u></u>         |

Term deposits with initial terms of over three months were neither past due nor impaired. The directors of the Cloudary considered that the carrying amount of the term deposits with initial terms of over three months approximated to their fair value as at December 31, 2014.

The effective interest rate of the term deposits of the Cloudary Corporation Group for the year ended December 31, 2014 was 3.55%.

## C16 Convertible bonds

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | <u>RMB'000</u>                |
| At January 1, .....                       | 414,964                       |
| Fair value loss of convertible bonds..... | 57,415                        |
| Exchange difference .....                 | <u>(604)</u>                  |
| At December 31, .....                     | <u><u>471,775</u></u>         |

The management had used the discounted cash flow method to determine the underlying equity fair value of Cloudary and adopted binomial model to determine the fair value of convertible bonds as of the date of issuance and at the reporting date. Key assumptions at the issuance and reporting date are set as below:

|                               | As at<br>December 31,<br>2014 |
|-------------------------------|-------------------------------|
|                               | <u>RMB'000</u>                |
| Discount rate .....           | 10.50%-10.70%                 |
| Risk-free interest rate ..... | 0.99%-1.20%                   |
| Volatility .....              | <u>30.00%-40.00%</u>          |

The Cloudary's Convertible Bonds was issued on June 4, 2013 to an affiliate of Goldman Sachs, a third party lender. The Cloudary's Convertible Bonds with nominal amount of US\$55,000,000 is carrying interest rate at 5% per annum payable annually, and will mature on June 4, 2016. The Cloudary's Convertible Bonds entitles the holder to convert such bond into Class B ordinary shares of Cloudary at any time after the issuance date up to the close of business on the date falling even days prior to the maturity date. The Cloudary Corporation Group designates the entire hybrid contract of convertible bonds as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated statement of comprehensive loss.

Discount rate applied in determining the fair value of the convertible bonds was estimated by considering risky discount rate comprising a risk free rate, and credit and liquidity premiums as of each appraisal date. The managements estimated the risk-free interest rate based LIBOR with a term commensurate with the period from respective appraisal dates to expected maturity date and adjusted for a China country risk premium. The credit and liquidity spreads were estimated by referring to option adjusted spreads of comparable bonds of the comparable companies within the same industry and certain academic study, respectively. Volatility was estimated at the dates of appraisal based on median of historical volatilities of the comparable companies in the same industry within the timeframe commensurate with the period from the respective appraisal dates to expected maturity date. In addition to the assumptions adopted above, the Cloudary Corporation Group's projections of future performance were also factored into the determination of the fair value of convertible bonds on appraisal date.

## C17 Acquisition of Lazy Online

In August 2014, the Cloudary Corporation Group acquired 51% equity interests in Lazy Online, which mainly engaged in online radio service in Shenzhen, PRC. The following table summarizes the consideration paid for the acquisition of Lazy Online, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

|   | 2014          |
|---|---------------|
|   | RMB'000       |
| Consideration — cash consideration.....                                     | 39,249        |
| - Purchase consideration settled in cash .....                              | 27,223        |
| - Consideration payable .....   | 16,417        |
| - Post combination compensation .....                                       | (6,000)       |
| - Taxes paid for selling shareholders .....                                 | 1,609         |
| Recognized amounts of identifiable assets acquired and liabilities assumed: |               |
| Non-current assets .....  | 42,845        |
| Current assets .....  | 25,650        |
| Current liabilities .....   | (12,744)      |
| Total identifiable net assets .....   | 55,751        |
| Non-controlling interests .....   | (32,253)      |
| Goodwill .....  | 15,751        |
|   | <u>39,249</u> |

Further, according to the Equity Transfer Agreement in respect of Lazy Online, the founders, representing the non-controlling shareholders of Lazy Online after Cloudary's acquisition, shall have the right to request Cloudary to repurchase founders' equity interests in Lazy Online when certain conditions are met. The repurchase price was determined by making reference to the profit to be generated by Lazy Online in future periods or a fixed amount as stated in Equity Transfer Agreement in case that a change of control of the Cloudary Corporation Group. Accordingly, the put option liability was initially recognized at present value of redemption amount of approximately RMB64,113,000 by the Cloudary Corporation Group with reference to the present value of the estimated future cash outflows under the put option arrangement, and was accreted to redemption amount of approximately RMB76,360,000 as indicated in the Equity Transfer Agreement.

The accretion charge of the put option liabilities recorded in the Cloudary Corporation Group's consolidated statement of comprehensive loss was amounting to approximately RMB1,283,000 for the year ended December 31, 2014.



**C18 Borrowings**

|                             | As at<br>December 31,<br>2014 |
|-----------------------------|-------------------------------|
|                             | <u>RMB'000</u>                |
| Short-term borrowings ..... | <u>200,000</u>                |

As at December 31, 2014, the unsecured long-term borrowings due within one year balance of RMB200,000,000 was borrowed from Cloudary's by then related party, Shanda Networking. The borrowings bore interest rate at 5.04%~5.9% per annum and was repaid in June 2015.

As at December 31, 2014, the carrying amount of the Cloudary Corporation Group's borrowings approximated to their fair value.

**C19 Trade payables**

Ageing analysis of the trade payables based on invoice date at December 31, 2014 are as follows:

|                            | As at<br>December 31,<br>2014 |
|----------------------------|-------------------------------|
|                            | <u>RMB'000</u>                |
| - Up to 3 months .....     | 77,055                        |
| - 3 to 6 months .....      | 30,690                        |
| - 6 months to 1 year ..... | 6,031                         |
| - 1 to 2 years .....       | 18,472                        |
| - Over 2 year .....        | <u>27,919</u>                 |
|                            | <u>160,167</u>                |

## C20 Other payables and accruals

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | <u>RMB'000</u>                |
| Consideration payable related to the acquisition of non-controlling interests<br>(Note) ..... | 83,381                        |
| Advertising and marketing expense accruals .....  | 22,825                        |
| Prepayments received from customers .....   | 18,165                        |
| Staff costs and welfare accruals .....  | 14,069                        |
| Other tax payable .....   | 13,834                        |
| Interests payable .....   | 9,087                         |
| Special funds payable .....   | 8,354                         |
| Consulting expense accruals .....   | 6,039                         |
| Sales rebate accruals .....   | 5,157                         |
| Logistic fee payable .....  | 2,380                         |
| Outsourcing game development fee payable .....  | 1,980                         |
| Payables related to investments .....   | 1,100                         |
| Contingent liability .....  | 350                           |
| Others .....  | 9,714                         |
|   | <u>196,435</u>                |

*Note:*

The Cloudary Corporation Group entered into a number of irrevocable agreements with the non-controlling shareholders of a number of its subsidiaries to acquire the remaining equity interests in these subsidiaries held by these non-controlling shareholders, which is considered as obligations of the Cloudary to settle in cash according to the terms of these irrevocable agreements and the estimate assessed by the management. The consideration payable related to the acquisition of Cloudary's non-controlling interests represented the contingent considerations yet to be settled according to the respective irrevocable agreements at the end of each reporting period. These payables were initially and subsequently measured at fair value by Cloudary. In addition, as at December 31, 2014, there was balance of consideration payable related to the acquisition of Cloudary's non-controlling interests amounting to approximately RMB14,556,000, to be settled after 12 months after the end of each reporting period that recorded as "other non-current liabilities" in Cloudary's consolidated statement of financial position. The fair value gain arising from the remeasurement of consideration payable related to the acquisition of Cloudary's non-controlling interests recorded in the Group's consolidated statement of comprehensive loss was amounting to approximately RMB66,874,000 for the year ended December 31, 2014.

As at December 31, 2014, the carrying amounts of Cloudary's payables and accruals approximate to their fair values.

**C21 Redeemable convertible preferred shares**

In December 2010, Cloudary authorized the issuance and sale of 3,916,393 shares of Series A-1 Redeemable Convertible Preferred Shares and 7,396,757 shares of Series A-2 Redeemable Convertible Preferred Shares (collectively "Series A Preferred Shares"), to Cloudary's then ultimate holding company of Shanda Interactive Entertainment Limited ("Shanda") for aggregate purchase prices of approximately US\$7,754,000 (equivalent to approximately RMB51,649,000) and approximately US\$14,646,000 (equivalent to approximately RMB97,415,000), respectively, or US\$1.98 per Series A Preferred Share. The Series A Preferred Shares have an equity conversion feature that exchanges a fixed amount of cash for a fixed number of shares, and accordingly Cloudary did the bifurcation and split accounting between the liability and equity components of the instrument. Cloudary first measured the fair value of the liability component amounting to approximately RMB131,337,000, and the residual amount of the compound financial instrument was recognized as the equity component amounting to approximately RMB18,264,000. Subsequent to the initial recognition, the liability component of the Series A Preferred Shares was accreted to redemption amount with changes recorded in profit or loss under "finance costs". The equity component was not re-measured subsequent to initial recognition. For the year ended December 31, 2014, the accretion charges recognized in Cloudary's consolidated statement of comprehensive loss was amounting to approximately RMB15,502,000.

In June 2013, Cloudary authorized the issuance and sale of 30,857,271 shares of Series B Redeemable Convertible Preferred Shares ("Series B Preferred Shares") to Sennett Investment Mauritius Pte. Ltd. for an aggregate purchase price of US\$55,000,000 (equivalent to approximately RMB 339,939,000), or US\$1.7824 per share. The Series B Preferred Shares does not have an equity conversion feature that exchanges a fixed amount of cash for a fixed number of shares, and Cloudary monitors Series B Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any feature from its debt host instrument and designates the entire hybrid contract as a financial liability at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of comprehensive income or loss. For the year ended December 31, 2014, the fair value loss recognized in Cloudary's consolidated statement of comprehensive loss was amounting to approximately RMB45,145,000.

In November 2014, the holders of Series A and Series B Preferred Shares elected to convert each Series A and Series B Preferred Share into a Class B ordinary share according to the respective terms of Series A and B Preferred Shares. As a result, 42,170,421 Class B ordinary shares of Cloudary were issued. At the conversion date, the balance of Series A Preferred Shares (including liability component amounting to approximately RMB153,546,000 and equity component amounting to approximately RMB18,264,000) was transferred to Cloudary Class B ordinary shares of approximately RMB696,000 and share premium of approximately RMB171,114,000 on that date. At the conversion date, the balance of Series B Preferred Shares of approximately RMB470,583,000 was transferred to Cloudary Class B ordinary shares of approximately RMB1,898,000 and share premium of approximately RMB468,685,000 on that date. All preferred rights entitled to Series A and Series B Preferred Shares holders lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

Cloudary's authorized ordinary share capital consists of 988,686,850 ordinary shares, par value US\$0.01 per share, further divided into 488,686,850 Class A ordinary shares, par value US\$0.01 per share, and 500,000,000 Class B ordinary shares, par value US\$0.01 per share. The terms of the Class A ordinary shares and Class B ordinary shares are similar, except that (i) each Class A ordinary share and Class B ordinary share shall be entitled to 10 votes and 1 vote respectively on all matters subject to vote at general meetings, and (ii) each Class A ordinary share is convertible into one Class B ordinary share at any time by the holder thereof, but Class B ordinary shares are not convertible into Class A ordinary shares under any circumstances.

**C22 Commitments**

The Cloudary Corporation Group leases servers and office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|   | As at<br>December 31,<br>2014 |
|---|-------------------------------|
|   | <u>RMB'000</u>                |
| No later than 1 year .....                        | 19,125                        |
| Later than 1 year and no later than 5 years ..... | <u>9,759</u>                  |
|   | <u><u>28,884</u></u>          |

## C23 Note to consolidated statement of cash flows

|  | Year ended<br>December 31,<br>2014 |
|--|------------------------------------|
|  | <u>RMB'000</u>                     |
| <b>Loss for the year</b> .....   | (104,442)                          |
| Adjustments for:   |                                    |
| Income tax expense .....   | 4,197                              |
| Compensation charges for post-combination services .....   | 7,140                              |
| Share-based compensation expenses .....  | 32,476                             |
| Depreciation of property, plant and equipment .....  | 9,076                              |
| Amortisation of intangible assets .....  | 117,699                            |
| Provision for doubtful receivables .....   | 55,157                             |
| Provision for inventory obsolescence .....   | 54,755                             |
| Impairment provision for intangible assets .....   | 5,243                              |
| Impairment loss of investment in an associate .....  | 6,388                              |
| Fair value loss of convertible bonds .....   | 57,415                             |
| Fair value loss of Series B Preferred Shares .....   | 45,145                             |
| Share of profit of investments accounted for using equity method .....                                     | (10,727)                           |
| Fair value gain of consideration payables related to the acquisition of<br>non-controlling interests ..... | (66,874)                           |
| Accretion on Series A Preferred Shares .....   | 15,502                             |
| Accretion charges of put option liability .....  | 1,283                              |
| Interest expense .....   | 54,977                             |
| Interest income .....  | (21,132)                           |
| Fair value gains on financial assets at fair value through profit or loss .....                            | (15,570)                           |
| Loss on disposals of property, plant and equipment .....   | 3,972                              |
| Changes in working capital: .....  |                                    |
| Trade and notes receivables .....  | (61,848)                           |
| Inventories .....  | (55,976)                           |
| Prepayments, deposits and other assets .....   | (9,857)                            |
| Trade payables .....   | (19,482)                           |
| Deferred revenue .....   | 35,193                             |
| Other payables and accruals .....  | (12,027)                           |
| <b>Net cash provided by operating activities</b> .....   | <u>127,683</u>                     |

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment

|  | Year ended<br>December 31,<br>2014 |
|--|------------------------------------|
|  | RMB'000                            |
| Net book amount .....                                  | 4,166                              |
| Loss on disposal of property and equipment .....       | <u>(3,972)</u>                     |
| Proceeds from disposal of property and equipment ..... | <u>194</u>                         |

#### IV. ADDITIONAL FINANCIAL INFORMATION OF CHUANGSHI ONLINE LITERATURE FOR THE PRE-ACQUISITION PERIOD

Chuangshi online literature was acquired by the Group in May 2014. Following is the financial information of Chuangshi online literature for the four months ended April 30, 2014 (also being the pre-acquisition period from January 1, 2014 to April 30, 2014).

##### (1) Consolidated statement of comprehensive income

|  | Note | Four months<br>ended<br>April 30, 2014 |
|--|------|--|
|  |      | RMB'000                                |
| <b>Revenues</b> .....  | S1   | 38,319                                 |
| Cost of revenues .....   | S2   | <u>(11,017)</u>                        |
| <b>Gross profit</b> .....  |      | 27,302                                 |
| Selling and marketing expenses .....   | S2   | (7,725)                                |
| General and administrative expenses .....  | S2   | (11,816)                               |
| Other losses, net .....  |      | <u>(6)</u>                             |
| <b>Operating loss</b> .....  |      | 7,755                                  |
| Interest income .....  |      | <u>7</u>                               |
| <b>Profit before income tax</b> .....  |      | 7,762                                  |
| Income tax expense .....   | S3   | <u>(1,847)</u>                         |
| <b>Profit and total comprehensive income attributable to equity owners of Chuangshi for the period</b> ..... |      | <u>5,915</u>                           |

## (2) Consolidated statement of financial position

|   | Note | As at<br>April 30, 2014 |
|---|------|-------------------------|
|   |      | RMB'000                 |
| <b>ASSETS</b>   |      |                         |
| <b>Non-current assets</b>   |      |                         |
| Property, plant and equipment .....                                     | S4   | 2,977                   |
| Intangible assets .....   | S5   | 43,181                  |
|   |      | <u>46,158</u>           |
| <b>Current assets</b>   |      |                         |
| Trade receivables .....   | S7   | 14,333                  |
| Prepayments, deposits and other assets .....                            | S6   | 11,364                  |
| Cash and cash equivalents .....   | S8   | 35,984                  |
|   |      | <u>61,681</u>           |
| <b>Total assets</b> .....   |      | <u><u>107,839</u></u>   |
| <b>DEFICIT</b>  |      |                         |
| <b>Capital and reserves attributable to equity holders of Chuangshi</b> |      |                         |
| Share capital .....   |      | —                       |
| Accumulated losses .....  |      | <u>(8,026)</u>          |
| <b>Total deficit</b> .....  |      | <u><u>(8,026)</u></u>   |
| <b>LIABILITIES</b>  |      |                         |
| <b>Current liabilities</b>  |      |                         |
| Trade payables .....  | S9   | 5,246                   |
| Other payables and accruals .....                                       | S10  | 106,111                 |
| Deferred revenue .....  |      | 2,658                   |
| Current income tax liabilities .....                                    |      | <u>1,850</u>            |
| <b>Total liabilities</b> .....  |      | <u><u>115,865</u></u>   |
| <b>Total deficit and liabilities</b> .....                              |      | <u><u>107,839</u></u>   |

## (3) Consolidated statement of cash flows

|   | Note | Four months<br>ended<br>April 30, 2014<br>RMB'000 |
|---|------|---|
| <b>Cash flows from operating activities</b>                     |      |   |
| Cash provided by operations .....                               | S12  | 11,255  |
| <b>Net cash flows generated from operating activities</b> ..... |      | <u>11,255</u>                                     |
| <b>Cash flows from investing activities</b>                     |      |   |
| Purchase of property, plant and equipment .....                 |      | (2,431)   |
| Purchase of intangible assets .....                             |      | (17,993)  |
| Interest received .....   |      | <u>7</u>  |
| <b>Net cash flows used in investing activities</b> .....        |      | <u>(20,417)</u>                                   |
| <b>Cash flows from financing activities</b>                     |      |   |
| Receipts of non-trade payables .....                            |      | 30,000  |
| <b>Net cash flows provided by financing activities</b> .....    |      | <u>30,000</u>                                     |
| Net increase in cash and cash equivalents .....                 |      | 20,838  |
| Cash and cash equivalents at beginning of the period .....      |      | 14,474  |
| Exchange gains on cash and cash equivalents .....               |      | <u>672</u>  |
| <b>Cash and cash equivalents at end of the period</b> .....     |      | <u>35,984</u>                                     |

## (4) Consolidated statement of changes in deficit

|                                    | Share capital | Accumulated<br>losses | Total           |
|------------------------------------|---------------|-----------------------|-----------------|
|                                    | RMB'000       | RMB'000               | RMB'000         |
| <b>As at January 1, 2014</b> ..... | <u>—</u>      | <u>(13,941)</u>       | <u>(13,941)</u> |
| <b>Comprehensive income</b>        |               |                       |                 |
| Profit for the period .....        | <u>—</u>      | <u>5,915</u>          | <u>5,915</u>    |
| <b>As at April 30, 2014</b> .....  | <u>—</u>      | <u>(8,026)</u>        | <u>(8,026)</u>  |



## S1 Revenues

|  | Four months<br>ended<br>April 30, 2014 |
|--|--|
|  | RMB'000                                |
| Online paid reading                          |  |
| - on Chuangshi's own platform products ..... | 3,739                                  |
| - on third party platforms .....             | 32,822                                 |
| Intellectual property operations .....       | 1,362                                  |
| Others .....                                 | 396                                    |
|  | <u>38,319</u>                          |

## S2 Expenses by nature

|   | Four months<br>ended<br>April 30, 2014 |
|---|--|
|   | RMB'000                                |
| Employee benefits expenses .....  | 13,674                                 |
| Content costs .....   | 5,182                                  |
| Promotion and advertising expenses .....  | 3,224                                  |
| Amortisation of intangible assets (Note S5) .....   | 3,126                                  |
| Provision for doubtful receivables .....  | 2,457                                  |
| Travelling, entertainment and general office expenses .....   | 1,052                                  |
| Others .....  | 1,843                                  |
| <b>Total cost of revenues, selling and marketing expenses and general and<br/>administrative expenses .....</b> | <b><u>30,558</u></b>                   |

## S3 Income tax expense

## (i) PRC CIT

CIT provision was made on the estimated assessable profits of entities within Chuangshi incorporated in the PRC for the four months ended April 30, 2014, 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 four months ended April 30, 2014.

|                          | Four months<br>ended<br>April 30, 2014 |
|--------------------------|--|
|                          | RMB'000                                |
| Income tax expense ..... | <u>1,847</u>                           |

The tax on Chuangshi's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the four months ended April 30, 2014, being the tax rate of Chuangshi. The difference is analysed as follows:

|   | Four months<br>ended<br>April 30, 2014 |
|---|--|
|   | RMB'000                                |
| Profit before income tax .....                        | 7,762                                  |
| Tax calculated at a tax rate of 25% .....             | 1,941                                  |
| Non-deductible expenses less non-taxable income ..... | <u>(94)</u>                            |
| Income tax expense .....                              | <u>1,847</u>                           |

## S4 Property, plant and equipment

|                                  | Computer<br>equipment | Leasehold<br>improvements | Total        |
|----------------------------------|-----------------------|---------------------------|--------------|
|                                  | RMB'000               | RMB'000                   | RMB'000      |
| <b>Cost:</b>                     |                       |                           |              |
| At January 1, 2014 .....         | 629                   | 328                       | 957          |
| Additions .....                  | <u>111</u>            | <u>2,320</u>              | <u>2,431</u> |
| At April 30, 2014 .....          | <u>740</u>            | <u>2,648</u>              | <u>3,388</u> |
| <b>Accumulated depreciation:</b> |                       |                           |              |
| At January 1, 2014 .....         | (128)                 | (157)                     | (285)        |
| Depreciation .....               | <u>(69)</u>           | <u>(57)</u>               | <u>(126)</u> |
| At April 30, 2014 .....          | <u>(197)</u>          | <u>(214)</u>              | <u>(411)</u> |
| <b>Net carrying amount:</b>      |                       |                           |              |
| At January 1, 2014 .....         | <u>501</u>            | <u>171</u>                | <u>672</u>   |
| At April 30, 2014 .....          | <u>543</u>            | <u>2,434</u>              | <u>2,977</u> |

## S5 Intangible assets

|                                  | Trademarks  | Copyrights of<br>contents | Software   | Total          |
|----------------------------------|-------------|---------------------------|------------|----------------|
|                                  | RMB'000     | RMB'000                   | RMB'000    | RMB'000        |
| <b>Cost:</b>                     |             |                           |            |                |
| At January 1, 2014 .....         | 178         | 30,177                    | 18         | 30,373         |
| Additions .....                  | <u>—</u>    | <u>17,993</u>             | <u>—</u>   | <u>17,993</u>  |
| At April 30, 2014 .....          | <u>178</u>  | <u>48,170</u>             | <u>18</u>  | <u>48,366</u>  |
| <b>Accumulated amortisation:</b> |             |                           |            |                |
| At January 1, 2014 .....         | (24)        | (2,033)                   | (2)        | (2,059)        |
| Amortisation .....               | <u>(12)</u> | <u>(3,113)</u>            | <u>(1)</u> | <u>(3,126)</u> |
| At April 30, 2014 .....          | <u>(36)</u> | <u>(5,146)</u>            | <u>(3)</u> | <u>(5,185)</u> |
| <b>Net carrying amount:</b>      |             |                           |            |                |
| At January 1, 2014 .....         | <u>154</u>  | <u>28,144</u>             | <u>16</u>  | <u>28,314</u>  |
| At April 30, 2014 .....          | <u>142</u>  | <u>43,024</u>             | <u>15</u>  | <u>43,181</u>  |

## S6 Prepayments, deposits and other assets

|   | As at<br>April 30, 2014 |
|---|-------------------------|
|   | <u>RMB'000</u>          |
| Prepayments to vendors and online writers ..... | 10,156                  |
| Prepaid professional service fees .....         | 595                     |
| Rental and other deposits .....                 | 258                     |
| Staff advances .....                            | 138                     |
| Others .....                                    | 217                     |
|   | <u>11,364</u>           |

## S7 Trade receivables

|   | As at<br>April 30, 2014 |
|---|-------------------------|
|   | <u>RMB'000</u>          |
| Trade receivables .....                                   | 14,333                  |
| Less: allowance for impairment of trade receivables ..... | —                       |
|   | <u>14,333</u>           |

## S8 Cash and cash equivalents

|                                       | As at<br>April 30, 2014 |
|---------------------------------------|-------------------------|
|                                       | <u>RMB'000</u>          |
| Cash and cash equivalents .....       | 35,984                  |
| Maximum exposure to credit risk ..... | 35,984                  |

Bank balances are denominated in the following currencies:

|            | As at<br>April 30, 2014 |
|------------|-------------------------|
|            | RMB'000                 |
| US\$ ..... | 21,997                  |
| RMB .....  | <u>13,987</u>           |
|            | <u>35,984</u>           |

### S9 Trade payables

As at April 30, 2014, the ageing of all trade payables are up to 3 months.

### S10 Other payables and accruals

|  | As at<br>April 30, 2014 |
|--|-------------------------|
|  | RMB'000                 |
| Non-trade payables (Note) .....                  | 93,000                  |
| Staff costs and welfare accruals .....           | 4,775                   |
| Labor costs payable .....                        | 3,681                   |
| Prepayments received from customers .....        | 3,501                   |
| Other tax payable .....                          | 889                     |
| Advertising and marketing expense accruals ..... | 195                     |
| Others .....                                     | <u>70</u>               |
|  | <u>106,111</u>          |

*Note:*

The balance consists of: 1) payable due to Trust Bridge Partners New Economy Equity Investment I LLP of RMB36,000,000, 2) payable due to Shenzhen Tencent Computer Systems Company Limited of RMB35,000,000 and 3) payable due to China Reading (Hong Kong) Limited of approximately RMB22,000,000. These balances are unsecured, interest-free and repayable on demand.

### S11 Commitments

The Chuangshi Online Literature leases office building under non-cancellable operating lease agreements. The lease term is no longer than one year, and the lease agreement is renewable at the end of the lease period at market rate.

The future aggregate minimum lease payment under non-cancellable operating lease is as follows:

|                            | As at<br>April 30, 2014 |
|----------------------------|-------------------------|
|                            | RMB'000                 |
| No later than 1 year ..... | <u>426</u>              |

S12 Note to consolidated statement of cash flows

|  | Four months<br>ended<br>April 30, 2014 |
|--|--|
|  | RMB'000                                |
| <b>Profit for the period</b> .....                     | 5,915                                  |
| Adjustments for:                                       |  |
| Income tax expense .....                               | 1,847                                  |
| Depreciation of property, plant and equipment .....    | 126                                    |
| Amortisation of intangible assets .....                | 3,126                                  |
| Provision for doubtful receivables .....               | 2,457                                  |
| Interest income .....                                  | (7)                                    |
| Foreign exchange gain .....                            | (672)                                  |
| Changes in working capital:                            |  |
| Trade receivables .....                                | (7,901)                                |
| Prepayments, deposits and other assets .....           | (6,784)                                |
| Trade payables .....                                   | (47)                                   |
| Deferred revenue .....                                 | 1,146                                  |
| Other payables and accruals .....                      | <u>12,049</u>                          |
| <b>Net cash provided by operating activities</b> ..... | <u>11,255</u>                          |

**V. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2017 and up to the date of this report. Same as disclosed in this report, no dividends or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2017.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### I. UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and Appendix I.*

#### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to the equity holders of the Company as of June 30, 2017 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at June 30, 2017 or at any future dates.

|   | Audited<br>consolidated<br>net tangible<br>assets of the<br>Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>June 30,<br>2017 <sup>(1)</sup> | Estimated net<br>proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited pro<br>forma adjusted<br>net tangible<br>assets of the<br>Group<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited pro forma<br>adjusted net tangible<br>assets per Share <sup>(3)(4)</sup> |       |
|---|--|---|---|--|-------|
|   | RMB'000  | RMB'000   | RMB'000   | RMB  | HK\$  |
| Based on an Offer Price of<br>HK\$55.00 per Share ..... | 1,511,531  | 6,114,121   | 7,625,652   | 8.73   | 10.35 |
| Based on an Offer Price of<br>HK\$48.00 per Share ..... | 1,511,531  | 5,331,276   | 6,842,807   | 7.83   | 9.29  |

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#### Notes

- (1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at June 30, 2017 is extracted from the Accountant's Report set out in Appendix I, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at June 30, 2017 of approximately RMB6,099,070,000 with an adjustment for the intangible assets attributable to the equity holders of the Company as at June 30, 2017 of approximately RMB4,587,539,000.



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(2) The estimated net proceeds to be received by the Company from the Global Offering are based on the indicative Offer Price of HK\$48.00 and HK\$55.00 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expense of approximately RMB29,791,000 which has been accounted for prior to June 30, 2017) payable by the Company, and taking no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 873,429,148 Shares were in issue assuming that the Global Offering has been completed on June 30, 2017 (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing) but takes no account of 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1853. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(4) However, assuming that the 32,988,091 Shares issued pursuant to the RSU Plan that are subject to vesting conditions are vested upon the Global Offering, such that 906,417,239 Shares are in issue immediately following the completion of the Global Offering (including 7,421,000 Shares issued pursuant to the RSU Plan that shall become vested upon Listing), the unaudited pro forma adjusted net tangible assets per Share would have been RMB7.55 (equivalent to HK\$8.95) (based on the Offer Price of HK\$48.00 per Share) and RMB8.41 (equivalent to HK\$9.97) (based on the Offer Price of HK\$55.00 per Share), respectively. This does not take into account any Shares that may be granted and issued or repurchased by the Company pursuant to the general mandate and the repurchase mandate.

For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.1853. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2017.

**B.    REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO  
FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**To the Directors of China Literature Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Literature Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at June 30, 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated October 26, 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at June 30, 2017 as if the proposed initial public offering had taken place at June 30, 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the six months ended June 30, 2017, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at June 30, 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

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**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong, October 26, 2017

**SUMMARY OF THE CONSTITUTION OF THE COMPANY****1 Memorandum of Association**

The Memorandum of Association was conditionally adopted on October 18, 2017 with effect from the Listing Date and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Available for Inspection” in Appendix V to this document.

**2 Articles of Association**

The Articles of Association were conditionally adopted on October 18, 2017 with effect from the Listing Date and include provisions to the following effect:

**2.1 *Classes of Shares***

The share capital of the Company consists of ordinary shares. The authorised share capital of the Company at the date of adoption of the Articles is US\$1,000,000 divided into 10,000,000,000 shares of US\$0.0001 each.

**2.2 *Directors*****(a) *Power to allot and issue Shares***

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature

of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by



ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### 2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### 2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**2.5 *Alteration of capital***

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

**2.6 *Special resolution — majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed,

by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

### **2.7 *Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

#### **2.8 *Annual general meetings***

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

#### **2.9 *Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the

manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

#### ***2.10 Notice of meetings and business to be conducted thereat***

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

#### ***2.11 Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

#### ***2.12 Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.



**2.13 *Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

**2.14 *Dividends and other methods of distribution***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.



Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

### **2.15 Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a

resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

#### *2.16 Calls on shares and forfeiture of shares*

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

#### ***2.17 Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

**2.18 *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

**2.19 *Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

**2.20 *Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator

may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

#### *2.21 Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

### **SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

#### **1 Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### **2 Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on April 22, 2013 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

**3 Share Capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company.

The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4 Dividends and Distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

#### **5 Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

#### **6 Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.



Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

#### **7 Disposal of Assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

#### **8 Accounting and Auditing Requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

#### **9 Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

#### **10 Inspection of Books and Records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.



**11 Special Resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**12 Subsidiary Owning Shares in Parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13 Mergers and Consolidations**

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

**14 Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

**15 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**16 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**17 Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**18 Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from May 7, 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

**20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**21 General**

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Available for Inspection" in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation**

Our Company was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability. Our registered office address is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in the section headed "Summary of the Constitution of our Company and the Companies Law" in Appendix III to this document.

Our registered place of business in Hong Kong is at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on August 10, 2017 with the Registrar of Companies in Hong Kong. Ms. Lai Siu Kuen has been appointed as the authorised representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

As at the date of this document, our Company's head office was located at No. 690 Bi Bo Road, Block 6, Pudong Xinqu, Shanghai, PRC.

**2. Changes in Share Capital**

On April 22, 2013, our Company was incorporated with an authorized share capital of US\$5,500 divided into 55,000,000 shares of a par value of US\$0.0001 each.

The following changes in the share capital of our Company took place during the two years immediately preceding the date of this document:

- (a) On February 16, 2016, our Company issued Shares in the following manner:
  - (i) 29,260,640 Shares to Qinghai Lake; and
  - (ii) 3,749,701 Shares to TB Partners.
- (b) On January 16, 2017, our Company issued Shares in the following manner:
  - (i) 21,766,014 Shares to Qinghai Lake;
  - (ii) 4,144,402 Shares to TB Partners; and
  - (iii) 4,291,402 Shares to Luxun.
- (c) On October 12, 2017, our Company issued 36,409,091 Shares and 4,000,000 Shares to Peak Income and Link Apex, respectively.

- (d) On October 18, 2017, the authorised share capital of our Company was increased by US\$900,000 divided into 9,000,000,000 Shares.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this document.

### 3. Changes in the share capital of our subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountant's Report in Appendix I to this document.

The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding the date of this document:

#### *Shengyun Information Technology*

On November 19, 2015, the registered capital of Shengyun Information Technology was increased from US\$10 million to US\$30 million.

Save as disclosed above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

Save for the subsidiaries mentioned in the Accountant's Report set out in Appendix I to this document, our Company has no other subsidiaries.

### 4. Resolutions of the Shareholders of Our Company dated October 18, 2017

Written resolutions of our Shareholders were passed on October 18, 2017, pursuant to which, among others:

- (a) conditional on (i) the conditions of the Global Offering as set out in this document being fulfilled; and (ii) the obligations of the Underwriters under each of the Underwriting Agreements to be entered into between, among others, our Company and the Underwriters in connection with the Global Offering becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Joint Global Coordinators for themselves and on behalf of the Underwriters) and such obligations not having been terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
- (1) the Listing, the Global Offering and the Over-allotment Option were approved and our Directors were authorised to negotiate and agree on the Offer Price for, and to allot, issue and approve the transfer of the Offer Shares;

- (2) a general unconditional mandate (the “**General Mandate**”) was given to our Directors to exercise all the powers of our Company to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted and issued or dealt with, such number of Shares as will represent up to 20% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Global Offering;
  - (3) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase its own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of our Company’s share capital in issue immediately following the completion of the Global Offering; and
  - (4) the General Mandate referred to in sub-paragraph (2) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in sub-paragraph (3) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering);
- (b) our Company conditionally approved and adopted the Memorandum and the Articles of Association with effect from the Listing Date.

Each of the general mandates referred to in sub-paragraphs (a)(2), (a)(3) and (a)(4) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

## 5. **Repurchase of Our Own Securities**

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this document concerning the repurchase of our own securities.

(a) *Provision of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on October 18, 2017, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering, with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) *Source of Funds*

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorised by the Articles of Association and subject to the Cayman Islands Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorised by the Articles of Association and subject to the Cayman Islands Companies Law.

*(iii) Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

*(iv) Status of Repurchased Shares*

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman law.

*(v) Suspension of Repurchase*

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.



(vi) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Core Connected Persons*

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) *Reasons for Repurchases*

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) *Funding of Repurchases*

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) *General*

The exercise in full of the Repurchase Mandate, on the basis of 906,417,239 Shares in issue immediately following the completion of the Global Offering, could accordingly result in up to approximately 90,641,723 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a share subscription agreement dated February 5, 2016 entered into among our Company, TB Partners and Qinghai Lake, pursuant to which TB Partners and Qinghai Lake agreed to subscribe for a total of 33,010,341 shares in our Company for a total consideration of US\$100,000,000;
- (b) a share subscription agreement dated January 16, 2017 entered into among our Company, Qinghai Lake, Luxun and TB Partners, pursuant to which Qinghai Lake, Luxun and TB Partners agreed to subscribe for a total of 30,201,818 shares in our Company for a total consideration of US\$100,000,000;
- (c) a shareholders' agreement dated January 16, 2017 entered into among our Company, THL A13, Tencent Growthfund, Qinghai Lake, Luxun, Laoshe, Deal Plus, TB Partners, Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松), Mr. Lin Tingfeng (林庭鋒), Mr. Hou Qingchen (侯慶辰) and Mr. Luo Li (羅立) relating to the transfer of shares in our Company and the management and operation of our Company and its subsidiaries;
- (d) an equity transfer agreement dated May 8, 2017 entered into between Mr. Luo Li (羅立) and Shanghai Yuewen, pursuant to which Mr. Luo Li agreed to transfer all of his equity interests in Shanghai Qiwen to Shanghai Yuewen for a total consideration of RMB10,209,723;
- (e) an equity transfer agreement dated April 26, 2017 entered into among Ms. Li Huimin (李慧敏), Mr. Huang Qihua (黃秋華), Litong, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ms. Li Huimin and Mr. Huang Qihua agreed to transfer all of their equity interests in Shanghai Hongwen to Litong and Ningbo Meishan Yuebao for a total consideration of RMB12,131,083.46;
- (f) an equity transfer agreement dated April 26, 2017 entered into among Mr. Pan Chunyu (潘春雨), Litong, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Mr. Pan Chunyu agreed to transfer his 45% equity interests in Shanghai Yuewen to Litong and Ningbo Meishan Yuebao for a total consideration of RMB4,912,391.65;
- (g) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Shengting, Litong and Shanghai Hongwen, pursuant to which Litong agreed to pledge all of its existing and future equity interests in Shanghai Hongwen to Shanghai Shengting;
- (h) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Shengting, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to pledge all of its existing and future equity interests in Shanghai Hongwen to Shanghai Shengting;

- (i) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Shengting, Litong and Shanghai Hongwen, pursuant to which Litong agreed to grant Shanghai Shengting an exclusive and irrevocable option to purchase from Litong all or part of its equity interests in Shanghai Hongwen for a total consideration of RMB7,931,302.36;
- (j) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Shengting, Ningbo Meishan Yuebao and Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to grant Shanghai Shengting an exclusive and irrevocable option to purchase from Ningbo Meishan Yuebao all or part of its equity interests in Shanghai Hongwen for a total consideration of RMB4,199,781.1;
- (k) an exclusive business cooperation agreement dated June 26, 2017 entered into between Shanghai Shengting and Shanghai Hongwen, pursuant to which Shanghai Hongwen agreed to engage Shanghai Shengting as the exclusive service provider to provide Shanghai Hongwen with technical support, consultation and other services in return for service fees;
- (l) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Yuechao, Litong and Shanghai Yuewen, pursuant to which Litong agreed to pledge all of its existing and future equity interests in Shanghai Yuewen to Shanghai Yuechao;
- (m) an equity pledge agreement dated June 27, 2017 entered into among Shanghai Yuechao, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to pledge all of its existing and future equity interests in Shanghai Yuewen to Shanghai Yuechao;
- (n) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Yuechao, Litong and Shanghai Yuewen, pursuant to which Litong agreed to grant Shanghai Yuechao an exclusive and irrevocable option to purchase from Litong all or part of its equity interests in Shanghai Yuewen for a total consideration of RMB6,633,125.01;
- (o) an exclusive call option agreement dated June 26, 2017 entered into among Shanghai Yuechao, Ningbo Meishan Yuebao and Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to grant Shanghai Yuechao an exclusive and irrevocable option to purchase from Ningbo Meishan Yuebao all or part of its equity interests in Shanghai Yuewen for a total consideration of RMB3,779,266.64;
- (p) an exclusive business cooperation agreement dated June 26, 2017 entered into between Shanghai Yuechao and Shanghai Yuewen, pursuant to which Shanghai Yuewen agreed to engage Shanghai Yuechao as the exclusive service provider to provide Shanghai Yuewen with technical support, consultation and other services in return for service fees;
- (q) a power of attorney dated June 27, 2017 executed by Litong in favor of Shanghai Shengting and acknowledged by Shanghai Hongwen, pursuant to which Litong agreed to, among other things, exclusively authorize Shanghai Shengting or Shanghai Shengting's designated person(s) to exercise all of its rights as shareholder of Shanghai Hongwen;



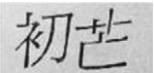

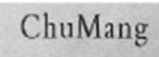
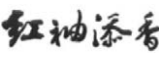


- (r) a power of attorney dated June 27, 2017 executed by Ningbo Meishan Yuebao in favor of Shanghai Shengting and acknowledged by Shanghai Hongwen, pursuant to which Ningbo Meishan Yuebao agreed to, among other things, exclusively authorize Shanghai Shengting or Shanghai Shengting's designated person(s) to exercise all of its rights as shareholder of Shanghai Hongwen;
- (s) a power of attorney dated June 27, 2017 executed by Litong in favor of Shanghai Yuechao and acknowledged by Shanghai Yuewen, pursuant to which Litong agreed to, among other things, exclusively authorize Shanghai Yuechao or Shanghai Yuechao's designated person(s) to exercise all of its rights as shareholder of Shanghai Yuewen;
- (t) a power of attorney dated June 27, 2017 executed by Ningbo Meishan Yuebao in favor of Shanghai Yuechao and acknowledged by Shanghai Yuewen, pursuant to which Ningbo Meishan Yuebao agreed to, among other things, exclusively authorize Shanghai Yuechao or Shanghai Yuechao's designated person(s) to exercise all of its rights as shareholder of Shanghai Yuewen; and
- (u) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights

## (a) Trademarks

## (i) Trademarks Registered in China

As at the Latest Practicable Date, we had registered the following trademarks in the PRC which we consider to be or may be material to our business:

| No. | Trademark   | Registered Owner     | Class | Registered Number | Expiry Date |
|-----|---|----------------------|-------|-------------------|-------------|
| 1.  |    | Shanghai Xuanting    | 16    | 16458404          | 20/11/2026  |
|     |   |                      | 28    | 19063470          | 06/03/2027  |
| 2.  |    | Shanghai Qiwen       | 45    | 16156430          | 27/12/2026  |
|     |   |                      | 16    | 16331727          | 13/05/2026  |
| 3.  |    | Wangwen Xinyue       | 9     | 18044338          | 20/11/2026  |
|     |   |                      | 16    | 18044513          | 20/11/2026  |
| 4.  |  | Wangwen Xinyue       | 9     | 18044420          | 20/11/2026  |
|     |   |                      | 16    | 18044468          | 20/11/2026  |
|     |   |                      | 35    | 18044725          | 20/11/2026  |
|     |   |                      | 38    | 18044857          | 20/11/2026  |
| 5.  |  | Wangwen Xinyue       | 9     | 18044844          | 20/11/2026  |
|     |   |                      | 41    | 18044908          | 20/11/2026  |
| 6.  |  | Beijing Hongxiu      | 34    | 7595826           | 06/12/2020  |
|     |   |                      | 29    | 7595827           | 06/12/2020  |
|     |   |                      | 28    | 7595828           | 20/11/2020  |
|     |   |                      | 24    | 7595829           | 20/11/2020  |
|     |   |                      | 21    | 7595830           | 06/12/2020  |
|     |   |                      | 20    | 7595831           | 06/02/2021  |
|     |   |                      | 15    | 7595832           | 06/12/2020  |
|     |   |                      | 14    | 7595833           | 06/12/2020  |
|     |   |                      | 11    | 7595834           | 20/02/2021  |
|     |   |                      | 9     | 7595835           | 20/02/2021  |
| 7.  |  | Xiaoxiang College    | 35    | 10531844          | 06/07/2023  |
|     |   |                      | 38    | 10535968          | 20/04/2023  |
|     |   |                      | 41    | 10536028          | 13/09/2024  |
| 8.  |  | Shenzhen Lazy Online | 9     | 14787547          | 06/07/2025  |

| No. | Trademark | Registered Owner     | Class | Registered Number | Expiry Date |
|-----|-----------|----------------------|-------|-------------------|-------------|
| 9.  | 懒人听听      | Shenzhen Lazy Online | 9     | 14787529          | 06/07/2025  |
| 10. | 择天记       | Shanghai Yuewen      | 3     | 15416884          | 06/11/2025  |
|     |           |                      | 5     | 15416976          | 06/11/2025  |
|     |           |                      | 8     | 15417085          | 06/11/2025  |
|     |           |                      | 11    | 15417108          | 06/11/2025  |
|     |           |                      | 14    | 15417154          | 06/11/2025  |
|     |           |                      | 15    | 15417208          | 06/11/2025  |
|     |           |                      | 18    | 15417298          | 06/11/2025  |
|     |           |                      | 20    | 15417361          | 06/11/2025  |
|     |           |                      | 21    | 15417469          | 06/11/2025  |
|     |           |                      | 22    | 15417525          | 06/11/2025  |
|     |           |                      | 24    | 15417678          | 20/11/2025  |
|     |           |                      | 25    | 15417803          | 20/11/2025  |
|     |           |                      | 26    | 15417889          | 06/11/2025  |
|     |           |                      | 27    | 15417973          | 06/11/2025  |
|     |           |                      | 29    | 15418113          | 06/11/2025  |
|     |           |                      | 30    | 15418222          | 20/11/2025  |
|     |           |                      | 31    | 15418305          | 27/12/2025  |
|     |           |                      | 32    | 15418396          | 20/12/2025  |
|     |           |                      | 36    | 15418517          | 27/11/2025  |
|     |           |                      | 43    | 15418585          | 20/12/2025  |
| 11. | 天域苍穹      | Shanghai Yuewen      | 9     | 15682077          | 27/12/2025  |
|     |           |                      | 16    | 15684772          | 27/12/2025  |
|     |           |                      | 28    | 15685202          | 27/12/2025  |
|     |           |                      | 35    | 15685463          | 27/12/2025  |
|     |           |                      | 38    | 15685491          | 27/12/2025  |
|     |           |                      | 41    | 15685766          | 27/12/2025  |
|     |           |                      | 42    | 15685946          | 27/12/2025  |
|     |           |                      | 45    | 15686154          | 27/12/2025  |
|     |           |                      | 3     | 15686440          | 27/12/2025  |
|     |           |                      | 5     | 15686563          | 06/01/2026  |
|     |           |                      | 8     | 15686698          | 06/01/2026  |
|     |           |                      | 11    | 15687218          | 06/01/2026  |
|     |           |                      | 14    | 15687942          | 06/01/2026  |

| No. | Trademark      | Registered Owner | Class | Registered Number | Expiry Date |
|-----|----------------|------------------|-------|-------------------|-------------|
|     |                |                  | 15    | 15696223          | 06/01/2026  |
|     |                |                  | 18    | 15696494          | 13/01/2026  |
|     |                |                  | 20    | 15696675          | 06/01/2026  |
|     |                |                  | 21    | 15696929          | 27/12/2025  |
|     |                |                  | 22    | 15702445          | 27/12/2025  |
|     |                |                  | 24    | 15702526          | 27/12/2025  |
|     |                |                  | 25    | 15702673          | 27/12/2025  |
|     |                |                  | 26    | 15702776          | 27/12/2025  |
|     |                |                  | 27    | 15702840          | 27/12/2025  |
|     |                |                  | 29    | 15702992          | 27/12/2025  |
|     |                |                  | 30    | 15703001          | 27/12/2025  |
|     |                |                  | 31    | 15703097          | 27/12/2025  |
|     |                |                  | 32    | 15703339          | 13/08/2026  |
|     |                |                  | 33    | 15703481          | 27/12/2025  |
|     |                |                  | 36    | 15703591          | 27/12/2025  |
|     |                |                  | 43    | 15703753          | 27/12/2025  |
| 12. | <b>风凌天下</b>    | Shanghai Yuewen  | 9     | 16365338          | 06/12/2026  |
|     |                |                  | 16    | 16365428          | 06/06/2026  |
|     |                |                  | 28    | 16365522          | 13/08/2026  |
|     |                |                  | 35    | 16365569          | 13/08/2026  |
|     |                |                  | 38    | 16365730          | 13/04/2026  |
|     |                |                  | 45    | 16365795          | 13/04/2026  |
| 13. | <b>太古神王</b>    | Shanghai Yuewen  | 9     | 16552044          | 13/05/2026  |
|     |                |                  | 16    | 16552093          | 13/05/2026  |
|     |                |                  | 28    | 16552134          | 13/05/2026  |
|     |                |                  | 35    | 16552267          | 06/07/2026  |
|     |                |                  | 38    | 16552328          | 13/05/2026  |
|     |                |                  | 41    | 16552393          | 13/05/2026  |
|     |                |                  | 42    | 16552431          | 13/05/2026  |
|     |                |                  | 45    | 16552515          | 13/05/2026  |
| 14. | <b>回到过去变成猫</b> | Shanghai Yuewen  | 9     | 17709991          | 06/10/2026  |
|     |                |                  | 16    | 17714569          | 06/10/2026  |
|     |                |                  | 28    | 17714745          | 06/10/2026  |
|     |                |                  | 35    | 17723919          | 06/10/2026  |
|     |                |                  | 41    | 17723979          | 06/10/2026  |



| No. | Trademark | Registered Owner | Class | Registered Number | Expiry Date |
|-----|-----------|------------------|-------|-------------------|-------------|
| 15. | 巫神纪       | Shanghai Yuewen  | 9     | 17713210          | 13/08/2027  |
|     |           |                  | 16    | 17714568          | 06/08/2027  |
|     |           |                  | 28    | 17723594          | 27/06/2027  |
|     |           |                  | 35    | 17723689          | 27/06/2027  |
|     |           |                  | 38    | 17735458          | 13/07/2027  |
|     |           |                  | 41    | 17735701          | 27/06/2027  |
|     |           |                  | 42    | 17736180          | 27/06/2027  |
|     |           |                  | 45    | 17736278          | 27/06/2027  |
| 16. | 巫神记       | Shanghai Yuewen  | 28    | 17723736          | 06/10/2026  |
|     |           |                  | 42    | 17736310          | 06/10/2026  |
| 17. | 冠军之光      | Shanghai Yuewen  | 16    | 17899868          | 20/10/2026  |
|     |           |                  | 28    | 17899933          | 20/10/2026  |
|     |           |                  | 41    | 17900114          | 06/11/2026  |
| 18. | 女娲成长日记    | Shanghai Yuewen  | 9     | 18474534          | 06/01/2027  |
|     |           |                  | 16    | 18475176          | 06/01/2027  |
|     |           |                  | 28    | 18475279          | 06/01/2027  |
|     |           |                  | 35    | 18475379          | 06/01/2027  |
|     |           |                  | 38    | 18475534          | 06/01/2027  |
|     |           |                  | 41    | 18475748          | 06/01/2027  |
|     |           |                  | 42    | 18475878          | 06/01/2027  |
|     |           |                  | 45    | 18475997          | 06/01/2027  |
| 19. | 神藏        | Shanghai Yuewen  | 45    | 18476218          | 06/01/2027  |
|     |           |                  | 9     | 18476453          | 06/01/2027  |
|     |           |                  | 35    | 18476651          | 06/01/2027  |
|     |           |                  | 16    | 18476722          | 06/01/2027  |
|     |           |                  | 38    | 18476778          | 06/01/2027  |
|     |           |                  | 3     | 18477308          | 06/01/2027  |
|     |           |                  | 41    | 18477392          | 06/01/2027  |

## (ii) Trademarks Registered in Hong Kong









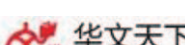
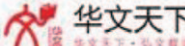
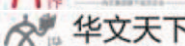







As at the Latest Practicable Date, we had not registered any trademarks in Hong Kong which we consider to be or may be material to our business.

## (iii) Trademarks Applications Pending in China











As at the Latest Practicable Date, we had not applied for the registration of any trademarks in the PRC which we consider to be or may be material to our business.

## (iv) Trademarks Applications Pending in Hong Kong

As at the Latest Practicable Date, we had applied for the registration of the following trademarks in Hong Kong which we consider to be or may be material to our business:

| No. | Trademark   | Applicant       | Class     | Application Number | Application Date |
|-----|---|-----------------|-----------|--------------------|------------------|
| 1.  |        | Shanghai Yuewen | 9         | 304071519          | 09/03/2017       |
|     |   |                 | 16        | 304071519          | 09/03/2017       |
|     |   |                 | 28        | 304071519          | 09/03/2017       |
|     |   |                 | 35        | 304071519          | 09/03/2017       |
|     |   |                 | 36        | 304071519          | 09/03/2017       |
|     |   |                 | 38        | 304071519          | 09/03/2017       |
|     |   |                 | 41        | 304071519          | 09/03/2017       |
|     |   |                 | 42        | 304071519          | 09/03/2017       |
| 2.  | (A)  | Shanghai Yuewen | 9         | 304229055          | 02/08/2017       |
|     | (B)  |                 | 16        | 304229055          | 02/08/2017       |
|     | (C)  |                 | 28        | 304229055          | 02/08/2017       |
|     | (D)  |                 | 35        | 304229055          | 02/08/2017       |
|     |      |                 | 36        | 304229055          | 02/08/2017       |
|     |      |                 | 38        | 304229055          | 02/08/2017       |
|     |      |                 | 41        | 304229055          | 02/08/2017       |
|     |      |                 | 42        | 304229055          | 02/08/2017       |
| 3.  | (A)  | Shanghai Yuewen | 9         | 304229073          | 02/08/2017       |
|     | (B)  |                 | 16        | 304229073          | 02/08/2017       |
|     | (C)  |                 | 28        | 304229073          | 02/08/2017       |
|     |      |                 | 35        | 304229073          | 02/08/2017       |
|     |      |                 | 36        | 304229073          | 02/08/2017       |
|     |      |                 | 38        | 304229073          | 02/08/2017       |
|     |      |                 | 41        | 304229073          | 02/08/2017       |
|     |      |                 | 42        | 304229073          | 02/08/2017       |
|     |      | 45              | 304229073 | 02/08/2017         |                  |



| No. | Trademark   | Applicant       | Class   | Application Number | Application Date |            |
|-----|---|-----------------|---|--------------------|------------------|------------|
| 4.  | (A)    | Shanghai Yuewen | 9   | 304229082          | 02/08/2017       |            |
|     | (B)    |                 | 16  | 304229082          | 02/08/2017       |            |
|     | (C)    |                 | 28  | 304229082          | 02/08/2017       |            |
|     | (D)    |                 | 35  | 304229082          | 02/08/2017       |            |
|     |   |                 |    | 36                 | 304229082        | 02/08/2017 |
|     |   |                 |    | 38                 | 304229082        | 02/08/2017 |
|     |   |                 |    | 41                 | 304229082        | 02/08/2017 |
|     |   |                 |    | 42                 | 304229082        | 02/08/2017 |
|     |        |                 | 45  | 304229082          | 02/08/2017       |            |
| 5.  | (A)    | Shanghai Yuewen | 9   | 304229091          | 02/08/2017       |            |
|     | (B)    |                 | 16  | 304229091          | 02/08/2017       |            |
|     | (C)    |                 | 28  | 304229091          | 02/08/2017       |            |
|     | (D)    |                 | 35  | 304229091          | 02/08/2017       |            |
|     |   |                 |  | 36                 | 304229091        | 02/08/2017 |
|     |   |                 |  | 38                 | 304229091        | 02/08/2017 |
|     |   |                 |  | 41                 | 304229091        | 02/08/2017 |
|     |   |                 |  | 42                 | 304229091        | 02/08/2017 |
|     |      |                 | 45  | 304229091          | 02/08/2017       |            |
| 6.  | (A)  | Shanghai Yuewen | 9   | 304229109          | 02/08/2017       |            |
|     | (B)  |                 | 16  | 304229109          | 02/08/2017       |            |
|     | (C)  |                 | 28  | 304229109          | 02/08/2017       |            |
|     | (D)  |                 | 35  | 304229109          | 02/08/2017       |            |
|     |   |                 |  | 36                 | 304229109        | 02/08/2017 |
|     |   |                 |  | 38                 | 304229109        | 02/08/2017 |
|     |   |                 |  | 41                 | 304229109        | 02/08/2017 |
|     |   |                 |  | 42                 | 304229109        | 02/08/2017 |
|     |      |                 | 45  | 304229109          | 02/08/2017       |            |
| 7.  | (A)  | Shanghai Yuewen | 9   | 304229118          | 02/08/2017       |            |
|     | (B)  |                 | 16  | 304229118          | 02/08/2017       |            |
|     | (C)  |                 | 28  | 304229118          | 02/08/2017       |            |
|     | (D)  |                 | 35  | 304229118          | 02/08/2017       |            |
|     |   |                 |  | 36                 | 304229118        | 02/08/2017 |
|     |   |                 |  | 38                 | 304229118        | 02/08/2017 |
|     |   |                 |  | 41                 | 304229118        | 02/08/2017 |
|     |   |                 |  | 42                 | 304229118        | 02/08/2017 |
|     |      |                 | 45  | 304229118          | 02/08/2017       |            |

| No. | Trademark   | Applicant       | Class   | Application Number | Application Date |
|-----|---|-----------------|---|--------------------|------------------|
| 8.  | (A)    | Shanghai Yuewen | 9   | 304229127          | 02/08/2017       |
|     |   |                 | 16  | 304229127          | 02/08/2017       |
|     | (B)    |                 | 28  | 304229127          | 02/08/2017       |
|     |   |                 | 35  | 304229127          | 02/08/2017       |
|     | (C)    |                 | 36  | 304229127          | 02/08/2017       |
|     |   |                 | 38  | 304229127          | 02/08/2017       |
|     | (D)    |                 | 41  | 304229127          | 02/08/2017       |
|     |   |                 | 42  | 304229127          | 02/08/2017       |
|     |   |                 | 45  | 304229127          | 02/08/2017       |
|     |   |                 |    | 45                 | 304229127        |
| 9.  | (A)    | Shanghai Yuewen | 9   | 304229136          | 02/08/2017       |
|     |   |                 | 16  | 304229136          | 02/08/2017       |
|     | (B)    |                 | 28  | 304229136          | 02/08/2017       |
|     |   |                 | 35  | 304229136          | 02/08/2017       |
|     | (C)    |                 | 36  | 304229136          | 02/08/2017       |
|     |   |                 | 38  | 304229136          | 02/08/2017       |
|     | (D)  |                 | 41  | 304229136          | 02/08/2017       |
|     |   |                 | 42  | 304229136          | 02/08/2017       |
|     |   |                 | 45  | 304229136          | 02/08/2017       |
|     |   |                 |  | 45                 | 304229136        |

## (v) Trademarks licensed by Tencent

As at the Latest Practicable Date, we were licensed to use the following registered trademarks which we consider to be or may be material to our business:

| No. | Trademark   | Registered Owner  | Place of registration | Class | Registered Number | Expiry Date |
|-----|---|---|-----------------------|-------|-------------------|-------------|
| 1.  |  | Tencent Technology<br>(Shenzhen) Company<br>Limited<br>(騰訊科技(深圳)有限公司) | China                 | 9     | 13891801          | 27/02/2025  |
|     |   |   | China                 | 9     | 14803161          | 13/07/2025  |
|     |   |   | China                 | 16    | 14803343          | 20/01/2026  |
|     |   |   | China                 | 28    | 14803416          | 20/07/2025  |
|     |   |   | China                 | 38    | 14803591          | 20/07/2025  |
|     |   |   | China                 | 41    | 14803868          | 20/07/2025  |
|     |   |   | China                 | 42    | 14803995          | 13/07/2025  |
|     |   |   | China                 | 45    | 14804055          | 13/08/2025  |

| No. | Trademark   | Applicant | Place of registration | Class | Application number | Application Date |
|-----|---|-----------|-----------------------|-------|--------------------|------------------|
| 1.  |  | Tencent   | Hong Kong             | 9     | 304197213          | 05/07/2017       |
|     |   |           |                       | 16    | 304197213          | 05/07/2017       |
|     |   |           |                       | 28    | 304197213          | 05/07/2017       |
|     |   |           |                       | 35    | 304197213          | 05/07/2017       |
|     |   |           |                       | 38    | 304197213          | 05/07/2017       |
|     |   |           |                       | 41    | 304197213          | 05/07/2017       |
|     |   |           |                       | 42    | 304197213          | 05/07/2017       |
|     |   |           |                       | 45    | 304197213          | 05/07/2017       |
| 2.  |  | Tencent   | Hong Kong             | 9     | 304197169          | 05/07/2017       |
|     |   |           |                       | 16    | 304197169          | 05/07/2017       |
|     |   |           |                       | 28    | 304197169          | 05/07/2017       |
|     |   |           |                       | 35    | 304197169          | 05/07/2017       |
|     |   |           |                       | 38    | 304197169          | 05/07/2017       |
|     |   |           |                       | 41    | 304197169          | 05/07/2017       |
|     |   |           |                       | 42    | 304197169          | 05/07/2017       |
|     |   |           |                       | 45    | 304197169          | 05/07/2017       |

(b) *Copyrights*

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business:

| No. | Copyright   | Version | Registration Number | Registration Date |
|-----|---|---------|---------------------|-------------------|
| 1.  | Shengda Wenxue Copyright Management System Software<br>(盛大文學版權管理系統軟件)                 | 1.0     | 2012SR089193        | 19/09/2012        |
| 2.  | Shengda Wenxue Copyright Tracking System Software<br>(盛大文學版權追蹤系統軟件)                   | 1.0     | 2012SR089197        | 19/09/2012        |
| 3.  | Chuangshi Zhongwenwang Writer's Assistant Software<br>(創世中文網作家助手軟件)                   | 1.0     | 2014SR209138        | 25/12/2014        |
| 4.  | Chuangshi Zhongwenwang Platform Software (創世中文網平台軟件)                                  | 2.0     | 2015SR002058        | 06/01/2015        |
| 5.  | “Quanmin Xianni” Mobile Phone Game Software (《全民仙逆》手機遊戲軟件)                            | 1.0     | 2016SR083814        | 22/04/2016        |
| 6.  | Xuanting Qidian Reading Software (Android Version) (玄霆起點讀書軟件 (Android版))              | 6.0     | 2016SR176219        | 12/07/2016        |
| 7.  | Xuanting Qidian Reading Software (iOS Version) (玄霆起點讀書軟件 (iOS版))                      | 3.5     | 2016SR177459        | 12/07/2016        |
| 8.  | Xuanting Qidian Reading Software (PC Version) (玄霆起點中文軟件 (PC版))                        | 2.0     | 2016SR178256        | 12/07/2016        |
| 9.  | Xuanting Qidian Mobile Web Software (玄霆起點手機網軟件)                                       | 3.1     | 2016SR184660        | 18/07/2016        |
| 10. | “Douluo Dalu” Game Software (《鬥羅大陸》遊戲軟件)  | 1.0     | 2017SR031931        | 06/02/2017        |
| 11. | “Tunshi Xingkong” Game Software (《吞噬星空》遊戲軟件)  | 1.2.6   | 2017SR123620        | 18/04/2017        |
| 12. | Xiaoshuo Yuedu — Reading System (小說閱讀—閱讀系統)   | 6.1     | 2012SR024330        | 29/03/2012        |
| 13. | Hongxiu Tianxiang — Android Client Application System (紅袖添香 — Android客戶端應用系統)         | 1.0     | 2013SR134562        | 28/11/2013        |
| 14. | Jingwei Wangluo Xiaoxiang Shuyuan Android Reading Client Software (經緯網絡瀟湘書院安卓閱讀客戶端軟件) | 2.0     | 2013SR094600        | 03/09/2013        |
| 15. | Jingwei Wangluo Xiaoxiang Shuyuan Apple Reading Client Software (經緯網絡瀟湘書院蘋果閱讀客戶端軟件)   | 4.9     | 2016SR247934        | 05/09/2016        |

| No. | Copyright  | Version | Registration Number | Registration Date |
|-----|--|---------|---------------------|-------------------|
| 16. | Tianfang “Audio — Numbers Library”<br>Application Software (天方<br>《有聲•數字圖書館》應用軟件 V1.0 (簡稱:<br>有聲•數字圖書館)) | 1.0     | 2005SRBJ0888        | 11/07/2005        |
| 17. | Lanren Audiobook Software (懶人聽書軟件)   | 1.0     | 2012SR053855        | 20/06/2012        |

(c) *Patents*

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

| No. | Patent   | Patentee              | Place of Registration | Patent Number | Application Date | Expiry Date |
|-----|--|-----------------------|-----------------------|---------------|------------------|-------------|
| 1.  | Network literature<br>copyright detection<br>method and system (網<br>絡文學版權檢測方法及<br>系統) | Shanghai<br>Shengting | China                 | 2010105937633 | 17/12/2010       | 16/12/2030  |

As at the Latest Practicable Date, we had applied for the registration of the following patents which we consider to be or may be material to our business:

| No. | Patent   | Applicant           | Place of Application | Application Number | Application Date |
|-----|--|---------------------|----------------------|--------------------|------------------|
| 1.  | Online reading method and<br>system, client, and server (在<br>線閱讀方法及系統、客戶端、<br>服務器)        | Shanghai<br>Yuechao | China                | 201310100779X      | 26/03/2013       |
| 2.  | Online works recommended<br>method, client, server and<br>system (在線作品推薦方法、客<br>戶端、服務器及系統) | Shanghai<br>Yuechao | China                | 2013100987201      | 26/03/2013       |

### 3. Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

| No. | Domain Name    | Registered Owner     | Expiry Date |
|-----|----------------|----------------------|-------------|
| 1.  | tingbook.com   | Tianfang Jinma       | 26/03/2018  |
| 2.  | xs8.cn         | Beijing Hongxiu      | 03/05/2018  |
| 3.  | hongxiu.com    | Beijing Hongxiu      | 03/07/2018  |
| 4.  | rongshuxia.com | Tianjin Under Banyan | 13/11/2018  |
| 5.  | readnovel.com  | Wangwen Xinyue       | 14/05/2018  |
| 6.  | qidian.com     | Shanghai Xuanting    | 11/06/2018  |
| 7.  | qmmm.com       | Shanghai Xuanting    | 25/07/2018  |
| 8.  | xksy.net       | Suzhou Jingwei       | 26/09/2025  |
| 9.  | chuangshi.com  | Shanghai Yuewen      | 08/08/2018  |

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS

### 1. Particulars of Directors' service contracts and appointment letters

#### (a) *Executive Directors*

Each of our executive Directors has entered into a service contract with our Company on June 23, 2017. Pursuant to this agreement, they agreed to act as executive Directors for an initial term of three years with effect from the date the appointment is approved by the Board until the third annual general meeting of our Company since the Listing Date (whichever is sooner). Either party has the right to give not less than three months' written notice to terminate the agreement. Details of the Company's remuneration policy is described in section headed "Directors and Senior Management — Directors' Remuneration" in this document.

The executive Directors are not entitled to receive annual salaries in their capacities as executive Directors under their respective service contracts.

#### (b) *Non-executive Directors and independent non-executive Directors*

Each of the non-executive Directors has entered into an appointment letter with our Company on October 19, 2017. The initial term for their appointment letters shall commence from the date of this document and shall continue for three years after or commence from the date of this document until the third annual general meeting of the Company since the Listing Date, whichever ends earlier, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.



Each of the independent non-executive Directors has entered into an appointment letter with our Company on October 19, 2017. The initial term for their appointment letters shall be three years from the date of this document or commence from the date of this document until the third annual general meeting of the Company since the Listing Date, whichever ends sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

The annual director's fees of the non-executive Directors and independent non-executive Directors payable by us are as follow:

| Non-executive Directors             | HK\$    |
|-------------------------------------|---------|
| Ms. Li Ming .....                   | nil     |
| Mr. Lin Haifeng.....                | nil     |
| Mr. James Gordon Mitchell.....      | nil     |
| Mr. Yang Xiang Dong .....           | nil     |
| Independent non-executive Directors | HK\$    |
| Ms. Yu Chor Woon Carol .....        | 500,000 |
| Ms. Leung Sau Ting Miranda.....     | 500,000 |
| Mr. Liu Junmin .....                | 500,000 |

## 2. Remuneration of Directors

- (a) Remuneration and benefits in kind of approximately RMB2.8 million, RMB31.5 million, RMB21.0 million and RMB7.0 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2017.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2017, is expected to be approximately RMB2.7 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

## 3. Disclosure of interests

(a) *Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the Global Offering*

Immediately following completion of the Global Offering (without taking into account of, as applicable, (i) any Shares which may be taken up by the Directors who are Qualifying Tencent Shareholders under the Preferential Offering; (ii) any change to the share capital of Tencent since the Latest Practicable Date up until completion of the Global Offering; and (iii) any dealings in the securities of Tencent by the Directors since the Latest Practicable Date up until completion of the Global Offering), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) *Interest in Shares and underlying Shares*

| Name of director or chief executive     | Nature of interest     | Number and class<br>of securities | Approximate<br>percentage of interest<br>in our Company<br>immediately after the<br>Global Offering <sup>(1)</sup> |
|---|------------------------|-----------------------------------|--|
| Mr. Wu Wenhui <sup>(2)</sup> .....      | Beneficial owner       | 27,100,626                        | 2.99%  |
| Mr. Liang Xiaodong <sup>(3)</sup> ..... | Beneficiary of a trust | 4,000,000                         | 0.44%  |

*Notes:*

- (1) The calculation is based on the total number of 906,417,529 Shares in issue immediately after completion of the Global Offering.
- (2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited, which holds 27,100,626 Shares, hence Mr. Wu Wenhui is the beneficial owner of these Shares.
- (3) Mr. Liang is entitled to RSUs equivalent to 4,000,000 Shares (subject to vesting conditions), which are held under a trust.

(ii) *Interest in associated corporations*

The following table sets out the directors' or chief executives' interests in Tencent:

| <u>Name of director or chief executive</u>     | <u>Nature of interest</u>               | <u>Total number<br/>of shares/<br/>underlying shares</u> | <u>Percentage of<br/>shareholding in Tencent</u> |
|--|---|--|--|
| Mr. James Gordon Mitchell <sup>(1)</sup> ..... | Beneficial owner                        | 4,588,300  | 0.05%  |
| Mr. Lin Haifeng <sup>(2)</sup> .....           | Beneficial owner                        | 351,896  | 0.00%  |
| Ms. Li Ming <sup>(3)</sup> .....               | Beneficial owner/<br>Interest of spouse | 50,610   | 0.00%  |

The following table lists out the directors' or chief executives' interests in the other associated corporations:

| <u>Name of director or<br/>chief executive</u> | <u>Nature of interest</u>             | <u>Associated corporations</u> | <u>Amount of<br/>registered<br/>capital (RMB)</u> | <u>Percentage of<br/>shareholding in<br/>the associated<br/>corporation</u> |
|--|---------------------------------------|--------------------------------|---|---|
| Mr. Wu Wenhui <sup>(4)</sup> .....             | Interest of controlled<br>corporation | Shanghai Hongwen               | 346,200   | 34.62%  |
|  | Interest of controlled<br>corporation | Shanghai Yuewen                | 346,200   | 34.62%  |

*Notes:*

- (1) These interests comprise (i) 1,558,100 Tencent Shares, (ii) 370,200 underlying Tencent Shares in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 2,660,000 underlying Tencent Shares in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent.
- (2) These interests comprise (i) 139,741 Tencent Shares and (ii) 212,155 underlying Tencent Shares in respect of the awarded shares granted to Mr. Lin Haifeng under share award schemes of Tencent.
- (3) These interests comprise (i) 12,333 Tencent Shares, (ii) 25,757 underlying Tencent Shares in respect of the awarded shares granted to Ms. Li Ming under share award schemes of Tencent, (iii) 5,320 underlying Tencent Shares in respect of the options granted to Ms. Li Ming under share option schemes of Tencent, and (iv) 7,200 Tencent Shares held by the spouse of Ms. Li Ming which Ms. Li Ming is deemed to be interested in for the purposes of the SFO.
- (4) Each of Shanghai Hongwen and Shanghai Yuewen are owned as to 34.62% by Ningbo Meishan Yuebao, which in turn is held as to 83.88% by Mr. Wu Wenhui. Under the SFO, our control over Shanghai Hongwen and Shanghai Yuewen means that these entities are our associated corporations, being subsidiaries of our Company.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

For information on the persons who will, immediately following the completion of the Global Offering, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, see the section headed "Substantial Shareholders" in this document.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such Capital.

#### 4. Disclaimers

Save as disclosed in this document:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (b) none of the Directors or the experts named in the paragraph headed “— E. Other Information — 4. Consents of Experts” in this section has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this document;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Global Offering, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such

provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

## **D. RSU PLAN**

### **1. Summary**

The following is a summary of the principal terms of the restricted stock unit plan (the “**RSU Plan**”) of our Company as approved by the Board on December 23, 2014 and amended by resolution of the Board on March 12, 2016. The terms of the RSU Plan are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Plan will not involve the grant of options by us to subscribe for ordinary shares with a par value of US\$0.0001 each once we have become a listed issuer. In addition, the grant of RSUs by our company or transfer upon vesting of the RSUs of any of the shares issued pursuant to the RSU Plan by any trustee or trust holding entities to a connected person of our Company should not be subject to the requirement of Chapter 14A of the Listing Rules.

### **2. Purpose**

The purpose of the RSU Plan is to promote the success and enhance the value of our Company, by linking the personal interests of our employees, directors or consultants, by providing such individuals employees, directors or consultants with an incentive for outstanding performance, to generate superior returns to the Shareholders. The RSU Plan is further intended to provide flexibility in our ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of our operation is largely dependent.

### **3. Who may join**

Those eligible to participate in the RSU Plan include employees, all members of the Board or consultants of a Group Company, as determined by the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board (the “**Administrator**”). The Administrator may, from time to time, select the employees, directors and consultants to whom a grant of a restricted stock unit (“**Awards**”) may be granted and will determine the nature and amount of each Award. Nil consideration is required to be paid by the grantees for the grant of an Award of RSUs.

### **4. Maximum number of Shares**

A total of 40,409,091 Shares have been issued to Link Apex and Peak Income which are holding the Shares on trust. The Board shall the sole and absolute discretion to increase the number of Shares which may be issued pursuant to all Awards under the RSU Plan by 1% of the total Shares of our Company on a fully diluted basis, subject to compliance with all applicable laws and regulations (including the Listing Rules).

## 5. Administration

We have appointed a trustee to assist the Administrator with the administration of the RSU Plan and grant and vesting of RSUs. Subject to applicable laws and the provisions of the RSU Plan (including any other powers given to the Administrator under the RSU Plan), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion to:

- (i) select the employees, Directors and consultants to whom Awards may be granted from time to time;
- (ii) to determine whether and to what extent Awards are granted;
- (iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted;
- (iv) to approve forms of agreement evidencing the grant of an Award (the “**Award Agreement**”) for use under the RSU Plan;
- (v) to determine the terms and conditions of any Award granted (including the vesting schedule set forth in the Award Agreement);
- (vi) to amend the terms of any outstanding Award granted under the RSU Plan, provided that any amendment that would materially and adversely affect the grantee’s rights under an outstanding Award shall not be made without the grantee’s written consent;
- (vii) to construe and interpret the terms of the RSU Plan and Awards, including without limitation, any notice of award or Award Agreement, granted pursuant to the RSU Plan; and
- (viii) to take such other action, not inconsistent with the terms of the RSU Plan, as the Administrator deems appropriate.

## 6. Terms and Conditions of Award

### (a) *Types of Awards*

The Administrator is authorized under the RSU Plan to award any type of arrangement to an employee, Director or consultant that is not inconsistent with the provisions of the RSU Plan and that by its terms involves or might involve the issuance of RSUs which may be settled in either, (i) Shares, (ii) cash, (iii) other consideration, or (iv) combination of the foregoing, as determined in the sole and absolute discretion of the Administrator.

(b) *Conditions of Award*

Subject to the terms of the RSU Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, the following: increase in share price, earnings per share, total shareholder return, operating margin, gross margin, return on equity, return on assets, return on investment, operating income, net operating income, pre-tax profit, cash flow, revenue, expenses, earnings before interest, taxes and depreciation, economic value added, and market share.

The performance criteria may be applicable to any member of our Group and/or any individual business units of any member of our Group. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(c) *Acquisitions and Other Transactions*

The Administrator may issue Awards under the RSU Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with a member of our Group acquiring another entity, an interest in another entity or an additional interest in another member of our Group whether by merger, share purchase, asset purchase or other form of transaction and such additional Awards shall not count against the maximum number of Shares as set forth in paragraph (c) above.

(d) *Separate Programs*

The Administrator may establish one or more separate programs under the RSU Plan for the purpose of issuing particular forms of Awards to one or more classes of grantees on such terms and conditions as determined by the Administrator from time to time.

(e) *Term of Award*

The term of each Award shall be the term stated in the Award Agreement. Notwithstanding the foregoing, the specified term of any Award shall not include any period for which the grantee has elected to defer the receipt of the Shares or cash issuable pursuant to the Award.

(f) *Transferability of Awards*

Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution to the extent and in the manner authorized by the Administrator. Notwithstanding the foregoing, the grantee may designate one or more beneficiaries of the grantee's Award in the event of the grantee's death on a beneficiary designation form provided by the Administrator.

(g) *Time of Granting Awards*

The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator.

7. **Taxes**

No Shares shall be delivered under the RSU Plan to any grantee or other person until such grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any applicable income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or upon settlement of an Award. Upon settlement of an Award our Company shall be permitted to withhold or collect from grantee an amount sufficient to satisfy such tax obligations.

8. **Conditions upon issuance**

Shares shall not be issued pursuant to the settlement of an Award unless the settlement of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable laws (including the making of all relevant filings, applications and registrations (if any) or the receipt of all approvals required under the laws of the PRC with respect to the settlement of such Award, including without limitation, those filings, registrations, applications and approvals required by the PRC State Administration of Foreign Exchange, in each case, as determined to be necessary or desirable by the Administrator in its discretion), and shall be further subject to the approval of counsel for our Company with respect to such compliance.

Notwithstanding any provision in the RSU Plan and the applicable Award Agreement, the settlement of any Award shall be subject to the satisfaction of all of the following conditions: (i) such Award has been vested according to the applicable Award Agreement and (ii) completion of an initial public offering of our Company.

As a condition to the settlement of an Award, our Company may require the person holding such Award to represent and warrant at the time of any such settlement that the Shares are being delivered only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for our Company, such a representation is required by any applicable laws.

As a condition to the settlement of an Award, the grantee shall grant a power of attorney to the Board or any person designated by the Board to exercise the voting rights with respect to the Shares, and our Company may require the person holding such Award to acknowledge and agree to be bound by the provisions of the members agreement and other related agreements entered into among the shareholders of our Company from time to time, as if the grantee is a shareholder thereunder.



## 9. Restricted Stock Units

### *Award of Restricted Stock Units*

The Administrator shall have the authority (1) to grant an Award of Restricted Stock Units to the employees, Directors and consultants, (2) to issue or transfer RSUs to grantees, and (3) to establish terms, conditions and restrictions applicable to such RSUs including the Restricted Period (as defined below), which may differ with respect to each grantee, the time or times at which RSUs shall be granted or become vested and the number of Shares to be covered by each grant.

Upon the expiration of the Restricted Period (as defined below) and the attainment of any other vesting criteria established by the Administrator, with respect to any outstanding RSUs, our Company shall deliver to the grantee, or his or her beneficiary, without charge, one Share (or other securities or other property, as applicable) for each such outstanding RSU which has not then been forfeited and with respect to which the Restricted Period (as defined below) has expired and any other such vesting criteria are attained; provided, however, that the Administrator may, in its sole discretion, elect to pay cash or part cash and part Shares in lieu of delivering only Shares in respect of such RSUs. If a cash payment is made in lieu of delivering Shares, the amount of such payment shall be equal to the fair market value of the Shares as of the date on which the Restricted Period (as defined below) lapsed with respect to such RSUs, less an amount equal to any federal, state and local income and employment taxes required to be withheld.

The grantee generally shall not have the rights and privileges of a shareholder as to the Shares covered by the RSUs, including the right to vote unless and until such RSUs are settled in Shares. Subject to relevant provisions in the applicable Award Agreement and at the discretion of the Administrator, cash dividends and stock dividends with respect to the RSUs may be set aside our Company for the grantee's account. The cash dividends or stock dividends so set aside by the Administrator and attributable to any particular RSU shall be distributed to the grantee upon the release of settlement of such RSU and, if such Award is forfeited, the grantee shall have no right to such cash dividends or stock dividends.

### *Restrictions*

The Administrator shall have the authority to remove any or all of the restrictions on the RSUs whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the date of the Award, such action is appropriate.

### *Restricted Period*

The Restricted Period of RSUs shall commence on the date of grant and shall expire from time to time as to that part of the RSU indicated in a schedule established by the Administrator and contained in the applicable Award Agreement (the "**Restricted Period**").

*Forfeiture Provisions*

Except to the extent determined by the Administrator and reflected in an Award Agreement, in the event a grantee's employment with all Group Companies during a Restricted Period is terminated, our Company shall have the right to repurchase that vested portion of the Award (including the portion of the Award that has been settled in Shares, if any) at a price determined by the Administrator and un-vested portion of the Award ("**Non Vested Portion**") shall be treated as follows.

- (i) Upon voluntary resignation of a grantee or discharge by a Group Company without cause, the Non Vested Portion of the Award shall be completely forfeited.
- (ii) Upon termination due to disability or illness, the Non Vested Portion of the Award shall be pro-rated for service during the Restricted Period up to such termination and the Restricted Period shall expire on such pro-rated portion of the Award.
- (iii) Upon death, the Non Vested Portion of the Award shall be pro-rated for service during the Restricted Period up to the death and the Restricted Period shall expire on such pro-rated portion of the Award.

Except to the extent determined by the Administrator and reflected in an Award Agreement, in the event of divorce of the grantee, our Company shall have the right to repurchase all the vested portion and un-vested portions of the Award (including the portion of the Award that has been settled in Shares, if any) at a price determined by the Administrator.

Except to the extent determined by the Administrator and reflected in an Award Agreement, in the event that (i) a grantee's employment with all Group Companies is terminated by the relevant employer with cause, or (ii) a grantee breaches his non-competition or non-solicitation obligations or other material provisions under his employment contract or any other agreement with any Group Company, our Company shall have the right to repurchase all the vested and unvested portions of the Award (including the portion of the Award that has been settled in Shares, if any) granted to the grantee (or his affiliate(s)) for a total consideration of US\$1.

**10. Effective Date and Term of the RSU Plan**

The RSU Plan commenced on December 23, 2014 (the "**Effective Date**") and shall continue in effect for a term of ten (10) years unless sooner terminated.

**11. Amendment, Suspension, or Termination of the RSU Plan**

The Board may at any time amend, suspend or terminate the RSU Plan; provided, however, that no such amendment shall be made without the approval of our Company's shareholders to the extent such approval is required by applicable laws, or if such amendment would change any of the provisions of paragraph (d)(vi) above or this paragraph (j).

No Award may be granted during any suspension of the RSU Plan or after termination of the RSU Plan.

No suspension or termination of the RSU Plan shall adversely affect any rights under Awards already granted to a grantee.

#### **12. Reservation of Shares**

Our Company, during the term of the RSU Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the RSU Plan.

The inability of our Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by our Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve our Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

#### **13. No Effect on Terms of Employment/Consulting Relationship**

The RSU Plan shall not confer upon any grantee any right with respect to the grantee's continuous service, nor shall it interfere in any way with his or her right or the right of a Group Company to terminate the grantee's continuous service at any time, with or without cause, and with or without notice. The ability of a Group Company to terminate the employment of a grantee who is employed at will is in no way affected by its determination that the grantee's continuous service has been terminated for cause for the purposes of the RSU Plan.

#### **14. No Effect on Retirement and Other Benefit Plans**

Except as specifically provided in a retirement or other benefit plan of a Group Company, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of any Group Company, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation.

#### **15. Vesting Schedule**

Except as approved by the Administrator and specified in the applicable Award Agreement, Awards under the RSU Plan shall vest as follows: 20% of the Award shall vest upon the first anniversary of the vesting commencement date, with the remaining 80% vesting in four (4) equal installments for each subsequent year at each anniversary thereafter, in each case subject to continuous service to the Group on such dates.

## 16. Details of the RSUs granted under the RSU Plan

Details of the RSUs granted pursuant to the RSU Plan to our Director are set out below:

| Name of Director        | Number of Shares<br>underlying the<br>RSUs granted | Vesting Period (subject to other conditions in the RSU Plan)  |
|-------------------------|--|---|
| Mr. Liang Xiaodong .... | 4,000,000  | <ul style="list-style-type: none"> <li>• One-fifth of which will vest on December 23, 2015</li> <li>• One-fifth of which will vest on December 23, 2016</li> <li>• One-fifth of which will vest on December 23, 2017</li> <li>• One-fifth of which will vest on December 23, 2018</li> <li>• One-fifth of which will vest on December 23, 2019</li> </ul> |

As noted above, the RSUs do not vest until completion of an initial public offering of our Company (i.e. occurrence of the Listing).

The RSUs granted in respect of 18,552,500 underlying Shares (excluding the RSUs forfeited) on December 23, 2014 have a vesting period of five years:

- One-fifth of which will vest on December 23, 2015
- One-fifth of which will vest on December 23, 2016
- One-fifth of which will vest on December 23, 2017
- One-fifth of which will vest on December 23, 2018
- One-fifth of which will vest on December 23, 2019

The RSUs granted in respect of 5,782,500 underlying Shares (excluding the RSUs forfeited) on January 17, 2017 have a vesting period of five years:

- One-fifth of which will vest on January 17, 2018
- One-fifth of which will vest on January 17, 2019
- One-fifth of which will vest on January 17, 2020
- One-fifth of which will vest on January 17, 2021
- One-fifth of which will vest on January 17, 2022

The RSUs granted in respect of 7,160,000 underlying Shares (excluding the RSU, forfeited) on September 4, 2017 have a vesting period of five years:

- One-fifth of which will vest on September 4, 2018
- One-fifth of which will vest on September 4, 2019
- One-fifth of which will vest on September 4, 2020
- One-fifth of which will vest on September 4, 2021
- One-fifth of which will vest on September 4, 2022

Assuming the Over-allotment Option is not exercised, the shareholding structure of our Company prior to and immediately following the completion of the Global Offering would be as follows:

| Name of Shareholder                  | Immediately before the completion of the Global Offering (assuming the Over-allotment Option is not exercised) |             | Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) |             |
|--------------------------------------|--|-------------|---|-------------|
|                                      | Number of Shares   | %           | Number of Shares  | %           |
| THL A13 .....                        | 246,600,000  | 32.01%      | 246,600,000   | 27.21%      |
| Tencent Growthfund.....              | 8,400,000  | 1.09%       | 8,400,000   | 0.93%       |
| Qinghai Lake .....                   | 222,305,634  | 28.85%      | 222,305,634   | 24.53%      |
| TB Partners.....                     | 45,882,331   | 5.96%       | 38,177,786  | 4.21%       |
| Deal Plus .....                      | 45,000,000   | 5.84%       | 45,000,000  | 4.96%       |
| Laoshe .....                         | 44,392,285   | 5.76%       | 36,687,740  | 4.05%       |
| Luxun .....                          | 49,713,624   | 6.45%       | 49,713,624  | 5.48%       |
| Grand Profits Worldwide Limited..... | 27,100,626   | 3.52%       | 27,100,626  | 2.99%       |
| Grand Profits Asia Limited .....     | 13,550,313   | 1.76%       | 13,550,313  | 1.49%       |
| Rise Dragon Investment Limited ..... | 13,550,313   | 1.76%       | 13,550,313  | 1.49%       |
| Jun Chang Limited.....               | 6,775,156  | 0.88%       | 6,775,156   | 0.75%       |
| Billion Excel Limited.....           | 6,775,156  | 0.88%       | 6,775,156   | 0.75%       |
| Peak Income <sup>(note)</sup> .....  | 36,409,091   | 4.73%       | 36,409,091  | 4.02%       |
| Link Apex <sup>(note)</sup> .....    | 4,000,000  | 0.52%       | 4,000,000   | 0.44%       |
| Offer Shares.....                    |  |             | 151,371,800   | 16.70%      |
| <b>Total</b> .....                   | <u>770,454,529</u>   | <u>100%</u> | <u>906,417,239</u>  | <u>100%</u> |

*Note:*

Link Apex and Peak Income are entities holding Shares issued pursuant to the RSU Plan on trust for and on behalf of the grantees or the Company (as the case may be).

**E. OTHER INFORMATION****1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

**2. Litigation**

Save as disclosed in this document and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

**3. Joint Sponsors**

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering.

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

**4. Consents of Experts**

The following experts have each given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

| Name                                    | Qualification  |
|---|--|
| Morgan Stanley Asia Limited .....       | A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO  |
| Merrill Lynch Far East Limited .....    | A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance), Type 7 (providing automated trading services) of the regulated activities under the SFO                      |
| Credit Suisse (Hong Kong) Limited ..... | A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO. |
| Han Kun Law Offices .....               | Qualified PRC Lawyers  |
| Co-Effort Law Firm LLP .....            | Qualified PRC Lawyers  |

| Name  | Qualification                   |
|---|---------------------------------|
| Maples and Calder (Hong Kong) LLP .....                   | Cayman Islands attorneys-at-law |
| PricewaterhouseCoopers...                                 | Certified public accountants    |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. .... | Industry consultant             |

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

#### 5. **Binding Effect**

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

#### 6. **Bilingual Document**

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

#### 7. **Preliminary Expenses**

The preliminary expenses incurred by the Company amounts to approximately RMB16,000.

#### 8. **Disclaimers**

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
- (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

- (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.
- (b) Save as disclosed in this document:
  - (i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
  - (ii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
  - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.
- (c) Save as disclosed in the paragraph headed “B. Further Information about our Business — 1. Summary of Material Contracts” in this section, none of our Directors or proposed Directors or experts (as named in this document), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.
- (d) We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this document within the two years immediately preceding the date of this document.
- (e) Save as disclosed in this prospectus, no equity or debt securities of any company within our Group is presently listed on any stock exchange or traded on any trading system nor is any listing or permission to deal being or proposed to be sought.
- (f) Save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.



**9. Particulars of the Selling Shareholders and the Over-allotment Option Grantors**

The particulars of the Selling Shareholders and the Over-allotment Option Grantors are as follows:

- |     |   |   |   |
|-----|---|---|---|
| (a) | Name  | : | Laoshe Investment Limited   |
|     | Description   | : | Shareholder   |
|     | Registered Address  | : | 190 Elgin Avenue,<br>George Town,<br>Grand Cayman KY1-9005,<br>Cayman Islands |
|     | Number of Sale Shares to be sold  | : | 7,704,545   |
|     | Maximum number of Shares to be sold pursuant to the exercise of the Over-allotment Option | : | 18,259,772  |
| (b) | Name  | : | Trustbridge Partners V, L.P.  |
|     | Description   | : | Shareholder   |
|     | Registered Address  | : | PO Box 309,<br>Ugland House,<br>Grand Cayman KY1-1104,<br>Cayman Islands      |
|     | Number of Sale Shares to be sold  | : | 7,704,545   |
|     | Maximum number of Shares to be sold pursuant to the exercise of the Over-allotment Option | : | 4,445,828   |

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**APPENDIX V            DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of **white, yellow, blue** and **green** Application Forms;
- (b) the written consents referred to under the section headed “Statutory and General Information — E. Other Information — 4. Consents of experts” in Appendix IV to this document;
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this document; and
- (d) the statement of particulars of the Selling Shareholders and the Over-allotment Option Grantors.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at our office in Hong Kong at Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the Accountant’s Report and the report on the unaudited pro forma financial information of our Group issued by PricewaterhouseCoopers, the texts of which are set out in Appendices I and II to this document;
- (c) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2014, 2015 and 2016;
- (d) the PRC legal opinions issued by Han Kun Law Offices, our legal advisor on PRC law, in respect of certain general corporate matters and property interests of our Group;
- (e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing certain aspects of the Companies Law referred to in Appendix III to this document;
- (f) the Companies Law;
- (g) the written consents referred to under the paragraph headed “Statutory and General Information — E. Other Information — 4. Consents of experts” in Appendix IV to this document;

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**APPENDIX V            DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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- (h) the material contracts referred to in “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this document;
- (i) the service contracts and the letters of appointment with our Directors referred to in “Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document;
- (j) the PRC legal opinions issued by Co-Effort Law Firm LLP, our legal advisor on PRC law, in respect of certain legal proceedings of the Group;
- (k) the report issued by Frost & Sullivan, the summary of which is set forth in the section headed “Industry Overview” in this document;
- (l) the terms of the RSU Plan; and
- (m) the statement of particulars of the Selling Shareholders and the Over-allotment Option Grantors.

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