2017 ANNUAL REPORT

阅文集团
CHINA LITERATURE

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772


OUR MISSION IS TO
CREATE VALUE FOR WRITERS
AND TO
BRING LITERATURE TO PEOPLE

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Wu Wenhui *(Co-Chief Executive Officer)*
Mr. Liang Xiaodong *(Co-Chief Executive Officer)*

Non-executive Directors
Mr. James Gordon Mitchell *(Chairman)*
Mr. Lin Haifeng
Ms. Li Ming
Mr. Yang Xiang Dong

Independent Non-executive Directors
Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

Audit Committee
Ms. Yu Chor Woon Carol *(Chairman)*
Mr. Yang Xiang Dong
Ms. Leung Sau Ting Miranda

Remuneration Committee
Ms. Leung Sau Ting Miranda *(Chairman)*
Mr. Wu Wenhui
Ms. Yu Chor Woon Carol

Nomination Committee
Mr. James Gordon Mitchell *(Chairman)*
Ms. Yu Chor Woon Carol
Mr. Liu Junmin

Strategy and Investment Committee
Mr. Wu Wenhui *(Chairman)*
Mr. Liang Xiaodong
Mr. James Gordon Mitchell
Mr. Lin Haifeng
Ms. Li Ming

Authorized Representatives
Mr. Liang Xiaodong
Ms. Lai Siu Kuen

Joint Company Secretaries
Mr. Zhao Jincheng
Ms. Lai Siu Kuen

Legal Advisors
As to Hong Kong laws:
Clifford Chance
27/F, Jardine House
One Connaught Place
Hong Kong

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

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

Compliance Advisor
Guotai Junan Capital Limited
27/F, Low Block Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Registered Office
The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Head Office and Principal Place of Business in China
Block 6, No. 690 Bi Bo Road
Pudong XinQu
Shanghai
PRC

CORPORATE INFORMATION

Principal Place of Business in Hong Kong

36/F, Tower Two
Times Square, 1 Matheson Street
Causeway Bay
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Banker

Shanghai Huangpu Sub-branch of
Bank of Communications
No. 99 Huaihai East Road
Shanghai
PRC

Company's Website

http://ir.yuewen.com/

Stock Code

772

Date of Listing

November 8, 2017

FINANCIAL SUMMARY AND OPERATIONAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,			
	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	**4,095,066**	2,556,866	1,606,640	466,208
Gross profit	**2,075,440**	1,054,847	580,534	202,243
Operating profit/(loss)	**510,776**	33,323	(307,760)	3,979
Profit/(loss) before income tax	**645,730**	38,318	(317,142)	4,116
Profit/(loss) for the year	**562,692**	30,360	(354,159)	(21,130)
Profit/(loss) attributable to equity holders of the Company	**556,129**	36,683	(347,584)	(21,130)
Total comprehensive income/(loss) for the year	**412,562**	57,589	(363,730)	(21,725)
Total comprehensive income/(loss) attributable to equity holders of the Company	**405,999**	63,912	(357,155)	(21,725)
Adjusted profit/(loss) attributable to equity holders of the Company	**721,817**	85,255	(91,959)	(7,264)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Non-current assets	**5,703,237**	5,016,493	5,025,715	5,022,976
Current assets	**9,434,131**	2,115,212	1,355,375	1,360,433
Total assets	**15,137,368**	7,131,705	6,381,090	6,383,409
Equity and liabilities				
Equity attributable to equity holders of the Company	**12,621,196**	5,166,225	4,375,468	4,599,151
Non-controlling interests	**41,514**	42,057	82,491	68,608
Total equity	**12,662,710**	5,208,282	4,457,959	4,667,759
Non-current liabilities	**710,492**	264,957	362,831	327,829
Current liabilities	**1,764,166**	1,658,466	1,560,300	1,387,821
Total liabilities	**2,474,658**	1,923,423	1,923,131	1,715,650
Total equity and liabilities	**15,137,368**	7,131,705	6,381,090	6,383,409

FINANCIAL SUMMARY AND OPERATIONAL HIGHLIGHTS

Year ended December 31, 2017

Revenues **4,095.1** RMB in Million	Profit attributable to equity holders of the Company **556.1** RMB in Million	Average MAUs **191.5** Million
Gross profit **2,075.4** RMB in Million	Adjusted profit attributable to equity holders of the Company **721.8** RMB in Million	Average MAUs on mobile **179.4** Million

CHAIRMAN'S STATEMENT

2017 was a monumental year for the Company, as our Shares were listed on the Main Board of the Stock Exchange on November 8, 2017, raising gross proceeds of approximately HKD7.5 billion, and providing us with enhanced capital strength to develop opportunities arising in the online literature market in China. I am therefore pleased to present our Shareholders with our first annual report as a publicly listed company, for the year ended December 31, 2017.

Our content library is at the core of our business. This vast, proprietary catalog of literature across 200 genres is monetized through online paid reading and through adaptation into other media formats. Our reader feedback data enables us to strategically manage the literary adaptation process and create a literary ecosystem in which our readers can interact with writers and influence the creative process. In 2017, many of our online literary titles were adapted into TV and web series, animations, games and films, broadening their audiences and extending their monetization. While we face tough competition, our content library, user community feedback, and adaptation extensions provide us with a sustainably differentiated position in China's literature, content and entertainment industries.

Now let me turn to our financial results and operational highlights for 2017, review our business developments during the year, and finally, summarize our strategy and outlook for the coming year.

2017 RESULTS HIGHLIGHTS

Our total revenues increased by 60.2% from RMB2,556.9 million in 2016 to RMB4,095.1 million for the year ended December 31, 2017. Gross profit over the same period increased by 96.8% from RMB1,054.8 million in 2016 to RMB2,075.4 million in 2017. Operating profit increased sharply from RMB33.3 million in 2016 to RMB510.8 million in 2017. Profit attributable to equity holders of the Company similarly rose from RMB36.7 million in 2016 to RMB556.1 million in 2017.

Our gross margin increased from 41.3% in 2016 to 50.7% in 2017, our operating margin increased from 1.3% in 2016 to 12.5% in 2017, and our net margin increased from 1.2% in 2016 to 13.7% in 2017.

Our average MAUs[1] for the year ended December 31, 2017 increased by 12.7% year-over-year to 191.5 million — 179.4 million on mobile and 12.1 million on PCs. Over the same period, we had 11.1 million average MPUs[2], representing an increase of 33.7% from 8.3 million in 2016.

Notes:

(1) Average MAUs is calculated as the average of MAUs for each calendar month during the respective year or period, on our platform and our self-operated channels on partner distribution platforms.

(2) Average MPUs is calculated as the average of MPUs for each calendar month during the respective year or period, on our platform and our self-operated channels on partner distribution platforms.

CHAIRMAN'S STATEMENT

Our flagship mobile application, the QQ Reading, was rewarded as the “Most User Engaged Mobile Apps in Top 10 Sectors,” “Top 10 Most Favorite Mobile Apps in Second Tier Cities” and “Top 9 Cross-Platform Traffic Mobile Apps” according to the 2017 China Mobile Internet Report, published by QuestMobile.

BUSINESS REVIEW

We nurture, connect and develop major constituents of the online literature ecosystem, including writers, content, readers, channels, and content adaption partners.

Core to our business model and future growth is the systematic recruitment, support, and marketing of new and established writers. We work with writers in customized ways to increase the popularity and commercial potential of their work. We conduct offline writer training programs and seminars, supplemented by frequent online interaction with our editors and lectures on our Weixin Official Accounts. We provide customized marketing support to raise the profiles of key writers and enhance their individual brands, including exposure on various TV channels, press conferences and recognition with various awards.

As of December 31, 2017, we had 6.9 million writers on our platform. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 43.0 billion individual characters were added on our platform in 2017.

Equally important to our business model, particularly in the crucial mobile market, is to expand our readership through better content offerings, enhanced user experiences, and additional distribution channels.

For our original content offerings, we have focused on expanding into new literary genres, especially our coverage of niche literary categories. In 2017, we introduced a number of new and popular genres, including military, sports, light novels, as well as comic fiction. We also introduced more e-book versions of film and television novels, such as Youth (芳華), and the Chinese e-book version of The Song of Ice and Fire (冰與火之歌).

As of December 31, 2017, our content library totaled 10.1 million works, including 9.7 million original literary works created by writers on our platform, 280,000 works sourced from third-party online platforms and 140,000 e-books.

In 2017, we continued to improve our user experience by adding functions and services. For example, we improved social interaction and deepened engagement between writers and readers via writer’s Q&A column, as well as introducing a reader feedback function that allows readers to comment on each paragraph while at the same time communicating with each other when reading.

Data analytics is an increasingly valuable component of our business model. During 2017, we enhanced our reader recommendation algorithms via data analytics and artificial intelligence technology, and we upgraded our navigation functions via better integrating our platform infrastructure and better tagging our content.

We continue to broaden our mobile Internet distribution channels to reach a wider user base. During the year, we partnered with handset companies to pre-install our products on popular handsets from partners such as Oppo, Vivo, and Huawei. We have been working with Tencent, our shareholder and strategic partner, to carry our content on a number of its platforms. In addition, we have built up our partnerships with third-party platforms such as Baidu, Xiaomi, Sogou, JD.com and Kuaimao.

CHAIRMAN'S STATEMENT

Developing, protecting, and monetizing our and our writers' IP is a key focus. During the course of the year, we sub-licensed over 100 online literary works to business partners for adaptation into other entertainment formats. By December 31, 2017, we had established over 200 content adaptation partnerships. Some of the highlights included co-investment projects for TV and web series on Our Glamorous Time (你和我的傾城時光), Martial Universe (武動乾坤) and Ever Night (將夜). We also produced a number of animations based on original content IP during 2017, including The King's Avatar (全職高手), Battle Through the Heavens (鬥破蒼穹), as well as new seasons for Full-Time Magister (全職法師) and Fighter of the Destiny (擇天記). Of these, The King's Avatar was the most successful, and won a number of major awards. We also developed theme characters and theme restaurants around The King's Avatar.

We also took our first step into international markets in 2017 with the launch of Webnovel, an English-language website and mobile platform, which brings translated Chinese serial fiction to international readers. The initial content is primarily translated into English, but we envision future editions in Thai, Korean, Japanese, and Vietnamese through partnerships with local-language Internet platforms. By December 31, 2017, we had built up a library of 124 titles, attracting 6 million cumulative visitors, on Webnovel.

BUSINESS OUTLOOK

Our focus through 2018 will be on further building up the scale and capabilities of our ecosystem, increasing the depth of our content library and expanding it into new genres. We are investing in driving technological innovation to improve the user experience and are diversifying our distribution channels so that we are able to reach more users. We are increasingly investing in, and involved in, adapting our IP into different content formats. We are committed to building the best platform for our writers and for our readers, which we believe will position us for long term content-driven and user-driven sustainability and growth.

Finally, I would like to extend my deepest gratitude to our management and employees for their contributions, commitment and hard work; to our Board of Directors for its guidance and support; and to our Shareholders for their confidence in China Literature.

Sincerely,
Mr. James Gordon Mitchell
Chairman of the Board and Non-executive Director

Shenzhen, April 9, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended December 31, 2017 Compared to Year ended December 31, 2016

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Revenues	**4,095,066**	2,556,866
Cost of revenues	**(2,019,626)**	(1,502,019)
Gross profit	**2,075,440**	1,054,847
Selling and marketing expenses	**(965,121)**	(734,176)
General and administrative expenses	**(710,266)**	(421,264)
Other gains, net	**110,723**	133,916
Operating profit	**510,776**	33,323
Finance costs	**(35,170)**	(27,092)
Finance income	**103,787**	3,939
Share of profit of investments accounted for using equity method	**66,337**	28,148
Profit before income tax	**645,730**	38,318
Income tax expense	**(83,038)**	(7,958)
Profit for the year	**562,692**	30,360
Attributable to:		
Equity holders of the Company	**556,129**	36,683
Non-controlling interests	**6,563**	(6,323)
	562,692	30,360
Adjusted profit for the year	**729,995**	81,124
Attributable to:		
Equity holders of the Company	**721,817**	85,255
Non-controlling interests	**8,178**	(4,131)
	729,995	81,124

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues. Revenues increased by 60.2% to RMB4,095.1 million for the year ended December 31, 2017 on a year-over-year basis. The following table sets forth our revenues by line of business for the years ended December 31, 2017 and 2016:

	Year ended December 31,			
	2017		2016	
	RMB' 000	**%**	RMB' 000	%
Online reading				
On our self-owned platform products	**1,873,557**	**45.8**	1,057,641	41.2
On our self-operated channels on Tencent products	**1,081,944**	**26.4**	666,438	26.1
On third-party platforms	**465,077**	**11.4**	249,984	9.8
Total online reading	**3,420,578**	**83.6**	1,974,063	77.1
Intellectual property operations	**366,221**	**8.9**	247,408	9.7
Physical books	**201,064**	**4.9**	224,033	8.8
Others	**107,203**	**2.6**	111,362	4.4
Total Revenues	**4,095,066**	**100.0**	2,556,866	100.0

— Revenues from online reading increased by 73.3% to RMB3,420.6 million for the year ended December 31, 2017 on a year-over-year basis.

Revenues from online reading on our products and self-operated channels increased by 71.4% to RMB2,955.5 million in 2017. The increase was mainly driven by the growth in both the number of paying users and the average revenue per paying user ("ARPU"), largely as a result of the continuous increase in our user engagement and our users' growing readiness to pay for premium online literature content. Average MPUs increased by 33.7% year-over-year to 11.1 million. Monthly ARPU increased by 28.2% year-over-year to RMB22.3. Average MAUs increased by 12.7% from 169.9 million in 2016 to 191.5 million in 2017, of which MAUs on our platform increased from 80.8 million in 2016 to 90.9 million in 2017 and MAUs on the self-operated channels increased from 89.1 million in 2016 to 100.6 million in 2017. Paying ratio increased from 4.9% in 2016 to 5.8% in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarizes our key operating data for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	2016
Average MAUs on our platform and self-operated channels (average of MAUs for each calendar month)	**191.5 million**	169.9 million
Average MPUs on our platform and self-operated channels (average of MPUs for each calendar month)	**11.1 million**	8.3 million
Paying Ratio(1)	**5.8%**	4.9%
Monthly ARPU(2)	**RMB22.3**	RMB17.4

ANNUAL GROWTH FOR KEY OPERATING METRICS

Average MAUs

+12.7%

Average MPUs

+33.7%

Paying Ratio (1)

+18.4%

Monthly ARPU (2)

+28.2%

Notes:

(1) Paying ratio is calculated as average MPUs / average MAUs for the respective year or period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

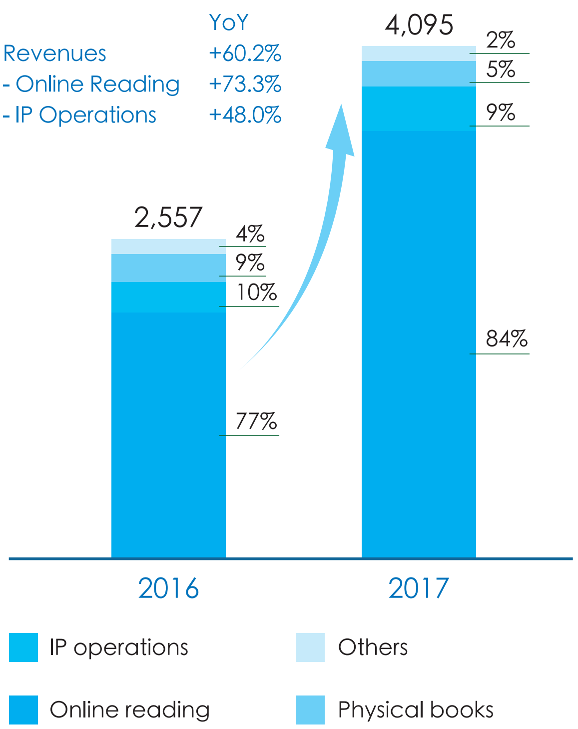
Revenues from online reading on third-party platforms increased by 86.0% to RMB465.1 million in 2017. The increase was primarily due to our expanded network of third-party distribution channels which enabled us to engage the growing user base and the growth of the online reading revenues generated through most of our existing third-party partners.

— Revenues from intellectual property operations increased by 48.0% to RMB366.2 million for the year ended December 31, 2017 on a year-over-year basis. The increase was primarily due to the increase of revenues from licensing copyrights for the adaptation of TV and web series, animations, games as well as films, the growth and strengthening of our content, its growing commercial value, the rising demand from our content adaptation partners for our high quality literary titles, as well as our increasing pricing and bargaining power in terms of licensing copyrights to content adaptation partners.

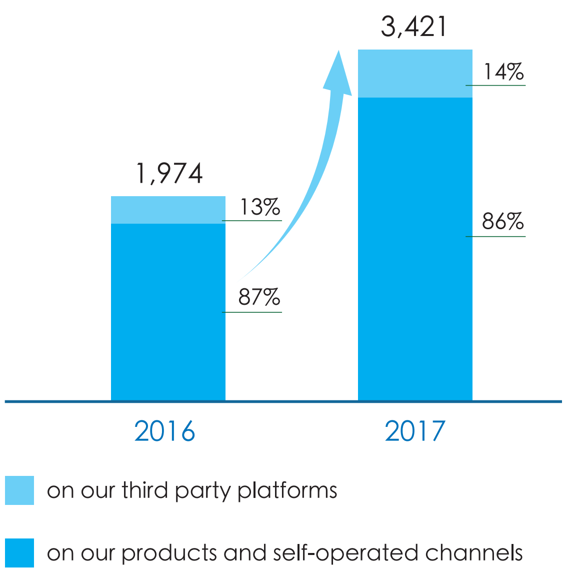
— Revenues from physical books decreased by 10.3% to RMB201.1 million for the year ended December 31, 2017 on a year-over-year basis, mainly because we synthesized and adjusted our offline physical book business line and distribution channels in 2017.

— Revenues from others decreased by 3.7% to RMB107.2 million for the year ended December 31, 2017 on a year-over-year basis. Our revenues from others are mainly derived from online games and online advertising services.

Total Revenue Structure
(RMB million)



Revenue Structure from Online Reading
(RMB million)



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of revenues. Cost of revenues increased by 34.5% to RMB2,019.6 million for the year ended December 31, 2017 on a year-over-year basis. The increase mainly reflected greater content costs and online reading platform distribution costs. Content costs increased by 52.6% to RMB1,280.0 million for the year ended December 31, 2017 on a year-over-year basis. The increase primarily reflected the increase in our online reading and intellectual property operations revenues and the resultant higher amount of fees paid to a growing number of contracted writers pursuant to the revenue-sharing arrangements. Distribution costs for the online reading platform increased by 55.4% to RMB237.7 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly driven by our increased revenues of online reading on our self-operated channels on Tencent products.

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

	Year ended December 31,			
	2017		2016	
	RMB' 000	**%**	RMB' 000	%
Content costs	**1,280,011**	**31.3**	838,975	32.8
Online reading platform distribution costs	**237,704**	**5.8**	152,971	6.0
Amortization of intangible assets	**110,093**	**2.7**	128,071	5.0
Cost of physical inventories recognized as expenses	**144,804**	**3.5**	151,003	5.9
Others	**247,014**	**6.0**	230,999	9.0
Total cost of revenues	**2,019,626**	**49.3**	1,502,019	58.7

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross margin. As a result of the foregoing, our gross profit increased by 96.8% to RMB2,075.4 million for the year ended December 31, 2017 on a year-over-year basis. Our gross margin increased from 41.3% in 2016 to 50.7% in 2017, primarily as a result of the shift of business towards online reading and intellectual property operations, our efficient cost control measures as well as increased economies of scale.

Selling and marketing expenses. Selling and marketing expenses increased by 31.5% to RMB965.1 million for the year ended December 31, 2017 on a year-over-year basis. The increase mainly reflected the increases in (i) promotion and advertising expenses as our business expanded, and (ii) payment handling costs, largely as a result of the increase in online reading revenues and more payments handled by channels with higher charge rates. As a percentage of revenues, selling and marketing expenses decreased to 23.6% for the year ended December 31, 2017 from 28.7% for the year ended December 31, 2016, primarily because the growth in our revenues outpaced the growth in selling and marketing expenses as a result of increased economies of scale.

General and administrative expenses. General and administrative expenses increased by 68.6% to RMB710.3 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly driven by greater employee benefits expenses and professional services fees incurred in connection with the IPO. As a percentage of revenues, general and administrative expenses increased to 17.3% for the year ended December 31, 2017 from 16.5% for the year ended December 31, 2016.

Other gains, net. We recorded net other gains, totalling RMB110.7 million for the year ended December 31, 2017, compared with RMB133.9 million for the year ended December 31, 2016. Our other gains in 2017 primarily consisted of (i) fair value gain of investments in redeemable shares of associates of RMB97.5 million, (ii) gain on disposals of subsidiaries of RMB60.9 million relating to Shanghai Foch Film Culture Investment Co., Ltd. and Tianjin Ruinuo Technology Co., Ltd., (iii) government subsidies of RMB32.6 million, (iv) fair value gain of derivative financial assets of RMB30.1 million, and (v) foreign exchange gain of RMB24.6 million, which was partially offset by the impairment loss of intangible assets of RMB156.3 million recorded during the period.

The impairment loss of intangible assets was in relation to (i) the trademark impairment of certain subsidiaries of Cloudary that we acquired in 2014, and (ii) the distribution channel relationship with certain telecom operators due to a notable decline in actual revenue realized and potential revenue to be generated from the business cooperation with such telecom operators in 2017.

Operating profit. As a result of the foregoing, we had an operating profit of RMB510.8 million for the year ended December 31, 2017, as compared with RMB33.3 million in the previous year. Operating margin increased from 1.3% in 2016 to 12.5% in 2017.

Finance costs. Finance costs increased by 29.8% to RMB35.2 million for the year ended December 31, 2017 on a year-over-year basis. The increase was mainly due to higher interest expense incurred in connection with our borrowings.

Finance income. Finance income increased from RMB3.9 million for the year ended December 31, 2016 to RMB103.8 million for the year ended December 31, 2017. The increase was mainly due to higher interest income arising from IPO subscription deposits and 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 RMB28.1 million in 2016 to RMB66.3 million in 2017, principally as a result of greater profits generated from our investee companies using equity method during 2017.

Income tax expense. Income tax expense increased from RMB8.0 million in 2016 to RMB83.0 million in 2017, mainly driven by our greater profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased significantly from RMB36.7 million in 2016 to RMB556.1 million in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

	Year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Adjusted operating profit[(1)]	**754,715**	118,104
Adjusted EBITDA[(2)]	**759,276**	184,425
Adjusted profit for the year[(3)]	**729,995**	81,124
Adjusted profit attributable to equity holders of the Company[(4)]	**721,817**	85,255
Interest expense	**29,843**	22,910
Net cash[(5)]	**8,131,710**	(136,707)
Capital expenditures[(6)]	**133,317**	133,092

Notes:

(1) Adjusted operating profit is defined as operating profit for the year adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets and one-off listing expenses.

(2) Adjusted EBITDA is calculated by EBITDA (which is operating profit for the year less other gains, net and plus depreciation and amortization expenses) for the year plus share-based compensation and one-off listing expenses.

(3) Adjusted profit for the year is defined as profit for the year adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets, one-off listing expenses, interest income on IPO subscription deposits and tax effects.

(4) Adjusted profit attributable to equity holders of the Company is defined as profit attributable to equity holders of the Company adjusted by share-based compensation, net gain from investee companies, amortization of intangible assets resulting from acquisitions, net gain from convertible bonds, impairment provision for intangible assets, one-off listing expenses, interest income on IPO subscription deposits, tax effects and related non-controlling interests effects.

(5) Net cash is calculated as cash and cash equivalents, term deposits and restricted bank deposits, less total borrowings.

(6) Capital expenditures consist of expenditures for intangible assets and for property, plant and equipment.

Non-International Financial Reporting Standards ("IFRS") Financial Measure:

To supplement the consolidated financial statements of the Group prepared in accordance with IFRS, the four non-IFRS measures, namely adjusted operating profit, adjusted EBITDA, adjusted profit for the year and adjusted profit attributable to equity holders of the Company, as additional financial measures, have been presented in this annual report. These unaudited non-IFRS financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

The Company's management believes that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations. The Company's management also believes that the non-IFRS measures are appropriate for evaluating the Group's operating performances. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results.

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the years ended December 31, 2017 and 2016 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of operating profit to adjusted operating profit:		
Operating profit for the year	**510,776**	33,323
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies(1)	**(158,380)**	(33,000)
Amortization of intangible assets(2)	**63,117**	82,965
Net (gain) from convertible bonds(3)	**—**	(92,207)
One-off listing expenses	**45,502**	—
Impairment provision(4)	**156,254**	49,000
Adjusted operating profit	**754,715**	118,104

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of operating profit to EBITDA and adjusted EBITDA:		
Operating profit for the year	**510,776**	33,323
Add:		
Other (gains), net	**(110,723)**	(133,916)
Depreciation of property, plant and equipment	**22,239**	14,531
Amortization of intangible assets	**154,036**	192,464
EBITDA	**576,328**	106,402
Add:		
Share-based compensation	**137,446**	78,023
One-off listing expenses	**45,502**	—
Adjusted EBITDA	**759,276**	184,425

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of profit for the year to adjusted profit for the year:		
Profit for the year	**562,692**	30,360
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies[1]	**(158,380)**	(42,150)
Amortization of intangible assets[2]	**63,117**	82,965
Net (gain) from convertible bonds[3]	**—**	(92,207)
Impairment provision[4]	**156,254**	49,000
One-off listing expenses	**45,502**	—
Interest income on IPO subscription deposits	**(55,575)**	—
Tax effects	**(21,061)**	(24,867)
Adjusted profit for the year	**729,995**	81,124

	Year ended December 31,	
	2017	2016
	RMB' 000	RMB' 000
Reconciliation of profit attributable to equity holders of the Company to adjusted profit attributable to equity holders of the Company:		
Profit attributable to equity holders of the Company	**556,129**	36,683
Add:		
Share-based compensation	**137,446**	78,023
Net (gain) from investee companies[1]	**(158,380)**	(42,150)
Amortization of intangible assets[2]	**63,117**	82,965
Net (gain) from convertible bonds[3]	**—**	(92,207)
Impairment provision[4]	**156,254**	49,000
One-off listing expenses	**45,502**	—
Interest income on IPO subscription deposits	**(55,575)**	—
Tax effects	**(21,061)**	(24,867)
Non-controlling interests effects	**(1,615)**	(2,192)
Adjusted profit attributable to equity holders of the Company	**721,817**	85,255

Notes:

(1) Includes fair value gain of investments in redeemable shares of associates, dilution gain, and gain on disposal of investee companies.

(2) Represents amortization of intangible assets resulting from acquisitions.

(3) Includes gain on redemption of convertible bonds.

(4) Includes impairment provision for intangible assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets grew from RMB7,131.7 million as of December 31, 2016 to RMB15,137.4 million as of December 31, 2017, whilst our total liabilities changed from RMB1,923.4 million as of December 31, 2016 to RMB2,474.7 million as of December 31, 2017. Liabilities-to-assets ratio changed from 27.0% at the end of 2016 to 16.3% at the end of 2017.

As of December 31, 2017, the current ratio (being the ratio of total current assets to the total current liabilities) was 534.8% (2016: 127.5%).

As of December 31, 2017, our Group has not pledged any assets as security.

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contribution from shareholders, cash generated from our operations, and borrowings from related parties and bank loans. As of December 31, 2017, our Group had net cash of RMB8,131.7 million. The sequential increase in net cash in 2017 was mainly due to the issuance of ordinary shares and net cash generated from our business growth. Our bank balances and term deposits are primarily held in USD and RMB. Our Group monitors capital on the basis of the gearing ratio, which is calculated as debt divided by total equity. As of December 31, 2017, our Group's gearing ratio was 3.8% (2016: 11.1%).

As of December 31, 2017, our total borrowings were RMB475.0 million, which were primarily denominated in RMB and related to a long-term borrowing balance of RMB475.0 million borrowed from Bank of Communications, Shanghai Branch, with a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum due in March 2019. The borrowing was under the loan facility agreement up to RMB500.0 million, which Shanghai Yuewen, one of our Group's subsidiary, and Bank of Communications, Shanghai Branch, entered into, with guarantee from Bank of Communications, Tokyo Branch. As of December 31, 2017, our Group's unutilized banking facility under the aforementioned loan facility agreement was RMB25.0 million.

As of December 31, 2017 and 2016, our Group did not have any significant contingent liabilities.

As of December 31, 2017 and 2016, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the year ended December 31, 2017 amounted to RMB240.7 million (2016: RMB196.4 million), representing a year-over-year increase of RMB44.3 million which was primarily due to our additional investments in associates and a joint venture solely in the form of ordinary shares. Our long-term investments were made in accordance with our general strategy of investing or acquiring businesses that are complementary to our business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the IPO Proceeds.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2017 and 2016.

Employee

As of December 31, 2017, we had approximately 1,600 full-time employees, most 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.

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

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out as follows:

DIRECTORS

Executive Directors

Mr. Wu Wenhui

Aged 39, joined the Group in October 2004, and is currently the executive Director and co-chief executive officer of the Company. He is responsible for the overall strategic planning and business direction of the Company. Mr. Wu was formerly a programmer at Founder Technology Group Co., Ltd. between July 2000 and October 2001, the chief executive officer of qidian.com and subsequently the president of Shanda Literature Corporation between October 2004 and March 2013, and the chief executive officer of Tencent Literature between January 2014 and March 2015. Mr. Wu received his bachelor's degree in computer software engineering from Peking University.

Mr. Wu currently holds positions in the following members of the Group:

- Cloudary HK as a director;
- China Reading HK as a director;
- China Reading Co., Ltd. as an executive director;
- Shanghai Yueting as a director and manager;
- Shanghai Yuechao as a director and manager;
- Shanghai Yuewen as a director and manager;
- Shanghai Hongwen as a director and manager;
- Shanghai Xuanting as an executive director;
- Shanghai Qiwen as an executive director;
- Wangwen Xinyue as an executive director;
- Beijing Yuewen Science and Technology Co., Ltd. as an executive director and manager;
- Shengyun Information Technology as a director and manager;
- Xiaoxiang College as an executive director;
- Tianjin Xuanting Information Technology Co., Ltd. as an executive director;
- Suzhou Jingwei as an executive director; and
- China Literature Pictures as an executive director and manager.

Mr. Liang Xiaodong

Aged 41, joined the Group in March 2009, and is currently an executive Director and co-chief executive officer of the Company. Mr. Liang is responsible for the overall strategic planning and business direction of the Company. He was an investment director and investment manager at Shanghai Shengda Network Development Co., Ltd. from September 2002 to July 2007, the chief financial officer of Shanda Literature Corporation between March 2009 and December 2013, the chief executive officer of Shanda Literature Corporation between November 2014 and March 2015, and has been a partner at TBP Consultant (HK) Limited since January 2014. Mr. Liang graduated from East China University of Science and Technology with a master's degree in economics, and received another master's degree in business administration from Schulich School of Business, York University.

Mr. Liang currently holds positions in the following members of the Group:

- Cloudary as a director;
- China Reading HK as a director;
- Beijing Hongwen Museum Publishing Planning Co., Ltd. as a director and chairman of the board of directors;
- Tianjin Huawen Tianxia Book as a director and chairman of the board of directors;
- Tianjin Zhongzhi Bowen Book as a director;
- Tianjin Under Banyan as a director and chairman of the board of directors;
- Ningbo Yuewen Wenxing Investment Management Co., Ltd. as an executive director; and
- Ningbo Xihe Investment Management Co., Ltd. as an executive director.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. James Gordon Mitchell

Aged 44, joined the Group in June 2017, and is currently the Chairman and a non-executive Director of the Company's Board. Mr. Mitchell is Senior Executive Vice President and Chief Strategy Officer of Tencent Holdings, where he has worked since July 2011. He is also a non-executive director of certain other listed companies including Yixin Group Limited (listed on the Stock Exchange under the stock code 2858) and Frontier Developments (listed on the London Stock Exchange under the symbol AIM: FDEV), and a director of several unlisted companies. Prior to joining Tencent, Mr. Mitchell was a managing director at Goldman Sachs. He received his bachelor's degree in history from the University of Oxford.

Mr. Lin Haifeng

Aged 41, joined the Group in November 2014, and is currently a non-executive Director of the Company. He has been the general manager of the merger and acquisitions department at Tencent Technology (Shenzhen) Co., Ltd. since November 2010, and also an executive director of Huayi Tencent Entertainment Co., Ltd. (listed on the Stock Exchange under the stock code: 00419) since February 2016. Mr. Lin received his bachelor's degree in industrial foreign trade from the School of Foreign Economics and Trade at Zhejiang University, and graduated from the Wharton School of the University of Pennsylvania with a master's degree in business administration.

Mr. Lin currently holds positions in the following members of the Group:

- China Reading HK as a director;
- Cloudary as a director;
- Shanghai Yuechao as a director;
- Shanghai Yuewen as a director;
- Shanghai Hongwen as a director;
- Shanghai Yueting as a director; and
- Shengyun Information Technology as a director.

Ms. Li Ming

Aged 42, joined the Group in October 2017, and is currently a non-executive Director of the Company. She worked at China Construction Bank Corporation between July 1997 and April 2000, and was a brand deputy director at Proctor & Gamble (Guangzhou) Ltd. from May 2000 to September 2014. In December 2014, Ms. Li joined the Retained Tencent Group, and is serving as an assistant general manager of marketing and public relations department, films and television and copyright business department, IEG marketing platform department and IEG research and design department. Ms. Li received her bachelor's degree in international finance from Nanjing University.

Mr. Yang Xiang Dong

Aged 53, joined the Group in May 2016, and is currently a non-executive Director of the Company. Mr. Yang is responsible to provide professional opinion and judgment to the Board. Mr. Yang worked at Goldman Sachs from 1992 to 2001, and later became the managing Director and the co-head of Carlyle Asia Partners. 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) since January 2017. Mr. Yang also has served as a Director of China Reading HK, a subsidiary of the Company since May 2016. Mr. Yang received a bachelor's degree in economics from Harvard University and a master's degree in business management from Harvard Business School.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Aged 55, joined the Group in October 2017, and is an independent non-executive Director of the Company. Ms. Yu is responsible to provide independent opinion and judgment to the Board. She held positions including director, company secretary and vice president for finance at Hisense Kelon Electrical Holdings Company Limited (formerly known as Guangdong Kelon Electrical Holdings Company Limited) from December 2000 to January 2002, was the president and chief financial officer of Sohu.com Inc. between March 2004 and July 2016, and has been the chief executive officer of Virtues Holding Limited since February 2017. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University).

Ms. Leung Sau Ting Miranda

Aged 50, joined the Group in October 2017, and is an independent non-executive Director of the Company. Ms. Leung is responsible to provide independent opinion and judgment to the Board. She was a trainee at the London office of Slaughter and May from September 1990 to September 1992, an associate in the firm's Hong Kong and London offices from September 1992 to September 2001, and a partner in the firm between September 2001 and November 2016. Ms. Leung has also been a director of the Lion Academy Trust since September 2015, and is 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.

Mr. Liu Junmin

Aged 68, joined the Group in October 2017, and is an independent non-executive director of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He 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 graduated from Nankai University with a bachelor's degree in economics in July 1982, a master's degree in economics in July 1988, and a doctorate degree in economics in July 1994.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Shang Xuesong

Aged 43, joined the Group in September 2004, and is the president of the Company. Mr. Shang is primarily responsible for the overall operation of the Company. He was a faculty member and teaching manager at the Shanghai University of International Business and Economics from July 1994 to September 2004, the general manager of qidian.com operated by Shanda Literature Corporation between September 2004 and March 2013, and the president of Tencent Literature between January 2014 and March 2015. Mr. Shang graduated from the East China University of Political Science and Law with a professional diploma in economic law.

Mr. Shang currently holds positions in the following members of the Group:

- Beijing Yuewen Xingyao Television Culture Co., Ltd. as an executive director and manager;
- Shanghai Yuehuo as an executive director;
- Beijing Hongxiu as an executive director;
- Beijing Reading Technology Co., Ltd. as an executive director;
- Shenzhen Lazy Online as a director;
- Shenzhen Lazy Technology Co., Ltd. as a director and chairman of the board of directors;
- Qisheng Culture Communication as a manager; and
- Tianjin Xuanting Information Technology Co., Ltd. as a manager.

Mr. Lin Tingfeng

Aged 40, joined the Group in September 2004, and is a senior vice president of the Company. Mr. Lin is primarily responsible for overseeing original content and team management. He was a senior vice president at qidian.com operated by Shanda Literature Corporation from September 2004 to March 2013, and a senior vice president at Tencent Literature between January 2014 and March 2015. Mr. Lin received his bachelor's degree in international economics and trade from Shanghai Dianji University.

Mr. Lin currently holds position in the following member of the Group:

- Shanghai Xuanting as a manager.

Mr. Zhang Rong

Aged 40, joined the Group in January 2014, and is a senior vice president of the Company. Mr. Zhang is primarily responsible for publishing, monthly subscriptions and team management. He was a product manager and assistant general manager at Tencent Technology (Shenzhen) Company Limited from June 2004 to January 2015, a senior vice president at Tencent Literature between January 2014 and March 2015, an executive director and manager of Tianjin Ruinuo Technology Co., Ltd. from June 2016 to September 2017, and a manager of Wangwen Xinyue which is a subsidiary of the Company. Mr. Zhang received his bachelor's degree in economic management from Shandong University of Finance and Economics.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on April 22, 2013 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's Shares were listed on the Main Board of the Stock Exchange on the Listing Date.

PRINCIPAL ACTIVITIES

The principal activities of the Group include operating online literature platform and providing literary content. The activities of the principal subsidiaries are set out in Note 40 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of comprehensive income on pages 70 of this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2017 (2016: Nil).

BUSINESS REVIEW

The business review and performance analysis of the Group for the Reporting Period is set out in the section headed "Chairman's Statement" from pages 6 to 8 and "Management Discussion and Analysis" from pages 9 to 19 of this annual report.

USE OF NET PROCEEDS FROM LISTING

The Shares of the Company were listed on the Main Board of the Stock Exchange on November 8, 2017 by way of global offering, raising total net proceeds of HKD7,235 million after deducting professional fees, underwriting commissions and other related listing expenses.

As stated in the Prospectus, the intended uses of the IPO Proceeds are set out as follows:

- approximately 30% of the IPO Proceeds (equivalent to approximately HKD2,170.5 million on net basis) will be used for expanding the Group's online reading business and sales and marketing activities;
- approximately 30% of the IPO Proceeds (equivalent to approximately HKD2,170.5 million on net basis) will be used for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles;
- approximately 30% of the IPO Proceeds (equivalent to approximately HKD2,170.5 million on net basis) will be used for funding the Group's potential investments in acquisitions and strategic alliances; and
- approximately 10% of the IPO Proceeds (equivalent to approximately HKD723.5 million on net basis) will be used for working capital and general corporate purposes.

Since the Listing Date and as of December 31, 2017, the Group has not utilized any IPO Proceeds. The Group will gradually utilize the IPO Proceeds in accordance with the intended purposes.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2017, the Group's five largest customers accounted for less than 30% of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2017, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in Note 34 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out on page 73 to 74 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of December 31, 2017, the Company's reserves available for distribution, amounted to approximately RMB12,987 million (as of December 31, 2016: RMB6,487 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2017 are set out in Note 30 to the consolidated financial statements.

DIRECTORS

The Directors during the Relevant Period and up to the date of this annual report are:

Executive Directors:

Mr. Wu Wenhui *(Co-Chief Executive Officer)*
Mr. Liang Xiaodong *(Co-Chief Executive Officer)*

Non-executive Directors:

Mr. James Gordon Mitchell *(Chairman)*
Mr. Lin Haifeng
Ms. Li Ming
Mr. Yang Xiang Dong

Independent Non-executive Directors:

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

In accordance with Article 16.18 of the Articles of Association, Mr. Liang Xiaodong, Mr. Lin Haifeng and Mr. Yang Xiang Dong shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders to be dispatched before the AGM.

REPORT OF DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 20 to 23 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent during the Reporting Period.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of our executive Directors has entered into a service contract with the Company on June 23, 2017 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 the 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.

Each of the non-executive Directors has entered into an appointment letter with the Company on October 19, 2017. The initial term for their appointment letters shall commence from the date of appointment letter and shall continue for three years after or commence from the date of appointment letter until the third annual general meeting of the Company since the Listing Date, whichever ends earlier (always subject 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 the Company on October 19, 2017. The initial term for their appointment letters shall be three years from the date of appointment letter or commence from the date of appointment letter until the third annual general meeting of the Company since the Listing Date, whichever ends sooner, (always subject 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.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

REPORT OF DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in Note 8 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 8 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2017, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been 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 they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

REPORT OF DIRECTORS

Interests of Directors and Chief Executives of the Company

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company[(1)] (%)
Mr. Wu Wenhui[(2)]	Interest in controlled corporations	27,100,626	Long position	2.99
Mr. Liang Xiaodong[(3)]	Beneficiary of a trust	4,000,000	Long position	0.44
Mr. James Gordon Mitchell	Beneficial owner	1,352	Long position	0.00
Ms. Li Ming	Beneficial owner	8	Long position	0.00

REPORT OF DIRECTORS

Interests of Directors and Chief Executives in Associated Corporations of the Company

Name	Name of Associated Corporations	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in Associated Corporations (%)
Mr. James Gordon Mitchell(4)	Tencent Holdings Limited	Beneficial owner	4,588,300	0.05
Mr. Lin Haifeng(5)	Tencent Holdings Limited	Beneficial owner	351,896	0.00
Ms. Li Ming(6)	Tencent Holdings Limited	Beneficial owner	33,401	0.00
		Interest of spouse	8,300	0.00
Mr. Wu Wenhui(7)	Shanghai Hongwen	Interest of controlled corporation	3,462,000	34.62
Mr. Wu Wenhui(7)	Shanghai Yuewen	Interest of controlled corporation	3,462,000	34.62

Notes:

(1) The calculation is based on the total number of 906,417,239 Shares in issue as of December 31, 2017.

(2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui is deemed to be interested in the 27,100,626 Shares held by Grand Profits Worldwide Limited.

(3) Mr. Liang Xiaodong is entitled to RSUs equivalent to 4,000,000 Shares (subject to vesting conditions), which are held under a trust.

(4) These interests comprise (i) 1,558,200 shares of Tencent, (ii) 370,100 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 2,660,000 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent.

(5) These interests comprise (i) 139,841 shares of Tencent and (ii) 212,055 shares underlying Tencent in respect of the awarded shares granted to Mr. Lin Haifeng under share award schemes of Tencent.

(6) These interests comprise (i) 15,876 shares of Tencent, (ii) 12,205 shares underlying Tencent in respect of the awarded shares granted to Ms. Li Ming under share award schemes of Tencent, (iii) 5,320 shares underlying Tencent in respect of the options granted to Ms. Li Ming under share option schemes of Tencent, and (iv) 8,300 shares of Tencent held by the spouse of Ms. Li Ming which Ms. Li Ming is deemed to be interested in for the purposes of the SFO.

(7) 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, Shanghai Hongwen and Shanghai Yuewen are associated corporations of the Company.

REPORT OF DIRECTORS

Save as disclosed above, as of December 31, 2017, none of the Directors or the chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required 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 they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of December 31, 2017, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company(1) (%)
Tencent Holdings Limited(2)	Interest in controlled corporations	522,305,634	Long position	57.62
THL A13 Limited(2),(3)	Beneficial owner	246,600,000	Long position	27.21
	Interest in controlled corporations	45,000,000	Long position	4.96
Qinghai Lake Investment Limited(2)	Beneficial owner	222,305,634	Long position	24.53
CAP IV, L.L.C.(4)	Interest in controlled corporations	68,141,592	Long position	7.52
Carlyle Holdings II GP L.L.C.(4)	Interest in controlled corporations	68,141,592	Long position	7.52

REPORT OF DIRECTORS

Name	Capacity/ Nature of Interest	Number of Shares	Long/Short Position	Approximate Percentage of Shareholding in the Company[1] (%)
The Carlyle Group L.P.[4]	Interest in controlled corporations	68,141,592	Long position	7.52
Luxun Investment Limited[4]	Beneficial owner	49,713,624	Long position	5.48
Li Shujun[5]	Interest in controlled corporations	78,731,958	Long position	8.69
TB Partners GP5 Limited[5]	Interest in controlled corporations	78,731,958	Long position	8.69
TB Partners GP5, L.P.[5]	Interest in controlled corporations	78,731,958	Long position	8.69
Trustbridge Partners V, L.P.[5]	Beneficial owner	33,731,958	Long position	3.72
	Interest in controlled corporations	45,000,000	Long position	4.96
FMR LLC[6]	Interest in controlled corporations	49,895,776	Long position	5.50

Notes:

(1) The calculation is based on the total number of 906,417,239 Shares in issue as of December 31, 2017.

(2) THL A13 and Qinghai Lake are wholly-owned subsidiaries of Tencent. 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 Global Limited, 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) Under the SFO, THL A13 is deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited, a British Virgin Islands organised company owned as to 48.9% by THL A13.

REPORT OF DIRECTORS

(4) Each of Laoshe Investment Limited (holding 18,427,968 Shares) and Luxun Investment Limited (holding 49,713,624 Shares) 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. 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, Carlyle Asia Partners IV, L.P., CAP IV General Partner, L.P., CAP IV, L.L.C., TC Group Cayman Investment Holdings Sub, L.P., TC Group Cayman Investment Holdings, L.P., Carlyle Holdings II L.P., Carlyle Holdings II GP L.L.C. and The Carlyle Group L.P. are deemed to be interested in the 68,141,592 Shares held by Laoshe Investment Limited and Luxun Investment Limited.

(5) Deal Plus Global Limited is owned by Trustbridge Partners V, L.P., which is a U.S.-dollar denominated Cayman Islands limited partnership fund managed by Trustbridge Partners and its affiliates, as to 36.11%. Trustbridge Partners V, L.P. is wholly-owned by TB Partners GP5, L.P., which in turn is wholly-owned by TB Partners GP5 Limited. TB Partners GP5 Limited is wholly-owned by Li Shujun. Under the SFO, Trustbridge Partners V, L.P., TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 45,000,000 Shares held by Deal Plus Global Limited and TB Partners GP5, L.P., TB Partners GP5 Limited and Li Shujun are deemed to be interested in the 33,731,958 Shares held by Trustbridge Partners V, L.P..

(6) FMR LLC held 49,895,776 Shares of the Company through its various directly or indirectly controlled companies.

Save as disclosed above, as of December 31, 2017, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

RESTRICTED STOCK UNIT PLAN

Our Company adopted its RSU Plan as approved by the Board resolution passed on December 23, 2014 and amended by the Board resolution passed on March 12, 2016. The RSU Plan commenced on December 23, 2014 and shall continue in effect for a term of ten (10) years unless sooner terminated. Certain principal terms and details of the RSU Plan are summarized as follows:

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 individual 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.

Eligible Participants

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 Administrator. The Administrator may, from time to time, select the employees, directors and consultants to whom Awards may be granted and will determine the nature and amount of each Award. No consideration is required to be paid by the grantees for the grant of an Award of RSUs.

REPORT OF DIRECTORS

Maximum Number of Shares

A total of 40,409,091 Shares have been issued to Link Apex Holdings Limited and Peak Income Group Limited which are holding the Shares on trust. The Board shall have 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).

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).

Restricted Stock Units

Award of Restricted Stock Units

The Administrator shall have the authority (a) to grant an Award of Restricted Stock Units to the employees, Directors and consultants, (b) to issue or transfer RSUs to grantees, and (c) 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 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.

REPORT OF DIRECTORS

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.

Details of the RSUs Granted under the RSU Plan

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 each vest on December 23, 2015, 2016, 2017, 2018 and 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 each vest on January 17, 2018, 2019, 2020, 2021 and 2022.

The RSUs granted in respect of 7,100,000 underlying Shares (excluding the RSUs, forfeited) on September 4, 2017 have a vesting period of five years, one-fifth of which will each vest on September 4, 2018, 2019, 2020, 2021 and 2022.

Details of the RSUs granted and vested pursuant to the RSU Plan to our Director are set out below:

Name of Director	Date of Grant	Number of Shares underlying the RSUs Granted	Number of Shares underlying the RSUs Vested during the Year ended December 31, 2017	Vesting Period
Liang Xiaodong	December 23, 2014	4,000,000 Shares	—	December 23, 2015 - December 23, 2019

REPORT OF DIRECTORS

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2017	**11,131,500**
Granted	**13,187,500**
Forfeited	**(305,000)**
Vested	**(3,710,500)**
Outstanding balance as of December 31, 2017	**20,303,500**
As of January 1, 2016	14,910,000
Forfeited	(85,000)
Vested	(3,693,500)
Outstanding balance as of December 31, 2016	11,131,500

EQUITY-LINKED AGREEMENTS

Other than the RSU Plan, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Relevant Period, neither the Company nor any of its subsidiaries or consolidated affiliated entities has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the Reporting Period.

REPORT OF DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following continuing connected transactions during the year ended December 31, 2017:

Non-exempt Continuing Connected Transactions

As disclosed in the Prospectus, the following transactions of the Group constituted Continuing Connected Transactions for the Company for the year ended December 31, 2017. For further details of the Continuing Connected Transactions, please refer to the section headed "Connected Transactions – Non-exempt Continuing Connected Transactions" on pages 262 to 283 of the Prospectus.

1. Promotion Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (for itself and on behalf of other members of our Group) entered into the Promotion Cooperation Framework Agreement with Tencent Computer, a subsidiary of Tencent, (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). In return for these promotion services, we would pay certain promotion services fees in one or more of the following manners, including cost-per-time, cost-per-click, cost-per-download, cost-per-activity, cost-per-sale and cost-per-mille, depending on the Retained Tencent Group's platform(s) through which the promotion services are provided. The term of the Promotion Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

Tencent Computer and other members of the Retained Tencent Group are associates of Tencent which is a substantial shareholder of the Company, and therefore are connected persons of the Company.

The annual cap for the year ended December 31, 2017 is RMB80.0 million, while the actual transaction amount for the year ended December 31, 2017 is approximately RMB52.9 million.

2. Payment Services Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (for itself and on behalf of other members of our Group) entered into the Payment Services Cooperation Framework Agreement with Tencent Computer, a subsidiary of Tencent, (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. We shall in return pay payment service commissions to the Retained Tencent Group. The term of the Payment Services Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2019.

Tencent Computer and other members of the Retained Tencent Group are associates of Tencent which is a substantial shareholder of the Company, and therefore are connected persons of the Company.

The annual cap for the year ended December 31, 2017 is RMB13.5 million, while the actual transaction amount for the year ended December 31, 2017 is approximately RMB11.2 million.

REPORT OF DIRECTORS

3. Cloud Services and Technical Services Framework Agreement

On October 21, 2017, Shanghai Yueting (for itself and on behalf of other members of our Group) entered into with Tencent Computer (for itself and on behalf of other members of the Retained Tencent Group) the Cloud Services and Technical Services Framework Agreement, pursuant to which the Retained Tencent Group agreed to provide cloud services and other technical services to us for service fees. 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.

Tencent Computer and other members of the Retained Tencent Group are associates of Tencent which is a substantial shareholder of the Company, and therefore are connected persons of the Company.

The annual cap for the year ended December 31, 2017 is RMB50.0 million, while the actual transaction amount for the year ended December 31, 2017 is approximately RMB42.8 million.

4. Online Platform Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (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 the Online Platform Cooperation Framework Agreement mainly in relation to the Online Platform Cooperation CCTs in the distribution of our literary works through our self-operated channels on 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.

As disclosed in the Prospectus, we consider that it would be unsuitable to adopt monetary annual caps for the Online Platform Cooperation CCTs contemplated under the Online Platform Cooperation Framework Agreements.

REPORT OF DIRECTORS

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:

Net Proceeds x 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 30% of the Net Proceeds received pursuant to the relevant Online Platform Cooperation CCTs.

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%.

For the year ended December 31, 2017, 4 transactions had been conducted with platforms including Mobile QQ, QQ Browser, Tencent News and Weixin Reading under the Online Platform Cooperation Framework Agreement with the average revenue sharing percentage of 25.1%. The actual transaction amount of the Online Platform Cooperation CCTs is approximately RMB297.9 million for the year ended December 31, 2017.

Tencent Computer and other members of the Retained Tencent Group are associates of Tencent which is a substantial shareholder of the Company, and therefore are connected persons of the Company.

As disclosed above, there are no annual caps under the Online Platform Cooperation Framework Agreement expressed in monetary terms, while the actual transaction amount for the year ended December 31, 2017 is approximately RMB297.9 million.

5. IP Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (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 the IP Cooperation Framework Agreement relating to the IP Cooperation CCTs. Forms of cooperation under the IP Cooperation Framework Agreement include 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: (a) fixed payment from the licensee to the licensor; (b) revenue/profit sharing between the parties; and (c) 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.

REPORT OF DIRECTORS

As disclosed in the Prospectus, we consider that adoption of monetary annual caps is unsuitable for the IP Cooperation CCTs under the IP Cooperation Framework Agreement.

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. Accordingly, the revenue derived from the IP Cooperation CCTs for the year ended December 31, 2017 shall not exceed RMB306.8 million (being 12% of the audited revenue of our Group for the year ended December 31, 2016).

During the Reporting Period, 70 transactions had been conducted under the IP Cooperation Framework Agreement, which are mainly 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 products adapted from our literary works to the Retained Tencent Group, and the actual transaction amount of IP Cooperation CCTs is approximately RMB111.6 million. For the year ended December 31, 2017, the aggregate revenue generated by the IP Cooperation CCTs to our Group amounted to RMB111.6 million, representing 4.4% of the audited revenue of our Group for the year ended December 31, 2016.

Tencent Computer and other members of the Retained Tencent Group are associates of Tencent which is a substantial shareholder of the Company, and therefore are connected persons of the Company.

As disclosed above, the annual cap for the year ended December 31, 2017 is approximately RMB306.8 million, being 12% of the audited revenue of the Group for the year ended December 31, 2016, while the actual transaction amount for the year ended December 31, 2017 is approximately RMB111.6 million.

6. Continuing Connected Transactions with Certain Subsidiaries of Sogou Inc.

The Company made its announcement pursuant to Rule 14A.60 of the Listing Rules on February 6, 2018, in relation to, among other things, the transactions entered into with certain subsidiaries of Sogou Inc. prior to it became a connected person of the Group. Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the annual review and disclosure requirements including publishing an announcement and annual reporting, and in the event that terms of such transactions are varied or renewed, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

For details of such transactions, please refer to the announcement of the Company dated February 6, 2018. The actual transaction amount for the period from November 9, 2017, the date when Sogou Inc. became a connected person of the Group, to December 31, 2017 is approximately RMB7.4 million.

Annual Review by the Independent Non-executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Continuing Connected Transactions outlined above, and confirmed that such Continuing Connected Transactions had been entered into:

(a) in the ordinary and usual course of business of our Group;

(b) on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

REPORT OF DIRECTORS

Our Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 36 to 39 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor of the Company has performed agreed-upon procedures regarding the continuing connected transactions entered into by the Group during the year ended December 31, 2017 as set out above and states that:

(a) nothing has come to its attention that causes it to believe that the disclosed Continuing Connected Transactions have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the Continuing Connected Transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and

(d) nothing has come to its attention that causes it to believe that such Continuing Connected Transactions have exceeded the annual caps as set by the Company.

Certain related party transactions as disclosed in Note 41 to the consolidated financial statements constituted as connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

The Auditor has included an emphasis of matter paragraph (without modification) in its letter which states that: "we draw attention that the Company issued an announcement in February 2018 in respect of the content cooperation and game cooperation transactions with certain subsidiaries of Sogou Inc. for the period from November 9, 2017 to December 31, 2017 as set out in the attached list of continuing connected transactions (the "Content and Game Transactions"). There was no annual cap for the Content and Game Transactions for the year ended December 31, 2017, and accordingly we do not provide a conclusion on whether the Content and Game Transactions have exceeded an annual cap. Our conclusion is not modified in respect of this matter".

As disclosed above, there were no annual caps set up for the transactions with certain subsidiaries of Sogou Inc. pursuant to Rule 14A.53 of the Listing Rules given that Sogou Inc. had not become a connected person of the Group at the time of entering into such transactions.

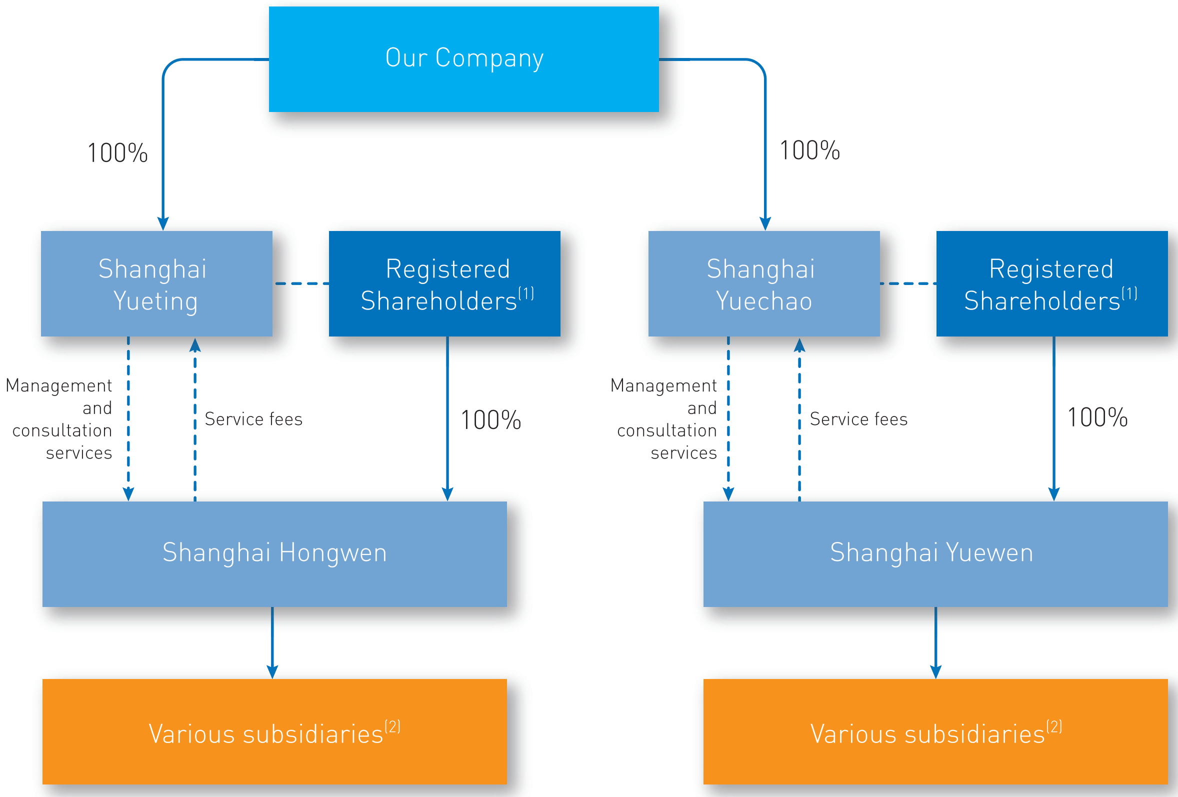
Save as disclosed in this annual report, during the year ended December 31, 2017, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

REPORT OF DIRECTORS

Contractual Arrangements

Our Company has entered a series of Contractual Arrangements with the WFOEs and the PRC Holdcos, pursuant to which our Company obtained effective control over, and received all the economic benefits generated by, the businesses operated by the Consolidated Affiliated Entities. Accordingly, through the Contractual Arrangements, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



"—>" 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.

REPORT OF DIRECTORS

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) 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 Catalog.

A brief 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 as follows:

(a) Exclusive Business Cooperation Agreements

Each of Shanghai Hongwen and Shanghai Yuewen entered into the Exclusive Business Cooperation Agreements with each of Shanghai Yueting and Shanghai Yuechao on June 26, 2017, pursuant to which, in exchange for a monthly service fee, the PRC Holdcos agreed to engage the WFOEs as each of their exclusive provider of technical support, consultation and other services, including 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 and subject to any necessary adjustment by the WFOEs of the scope and amount of service fees according to the PRC tax laws and practices.

(b) Exclusive Option Agreements

Under the Exclusive Option Agreements entered into among Shanghai Yueting, Shanghai Yuechao, Shanghai Hongwen, Shanghai Yuewen and the Registered Shareholders on June 26, 2017, 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 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).

REPORT OF DIRECTORS

(c) Equity Pledge Agreements

Under the Equity Pledge Agreements entered into between the WFOEs, the Registered Shareholders and the PRC Holdcos on June 27, 2017, 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.

(d) Powers of Attorney

The Registered Shareholders executed Powers of Attorney on June 26, 2017, pursuant to which 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. The Powers of Attorney shall remain effective for so long as each Registered Shareholder holds equity interest in the PRC Holdcos.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our PRC Holdcos and/or Consolidated Affiliated Entities during the year ended December 31, 2017. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2017.

For the year ended December 31, 2017, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2017, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of Shanghai Hongwen and Shanghai Yuewen and their respective subsidiaries amounted to RMB3,975.1 million for the year ended December 31, 2017, representing an increase by 58.1% from RMB2,513.6 million for the year ended December 31, 2016. For the year ended December 31, 2017, the revenue Shanghai Hongwen and Shanghai Yuewen and their respective subsidiaries accounted for approximately 97.1% of the revenue for the year of our Group (2016: 98.3%).

REPORT OF DIRECTORS

Reasons for Adopting the Contractual Arrangements

Our Internet publication, provision of audio-visual program services to the public and operation of online games operated through the PRC Holdcos and their respective subsidiaries are subject to foreign investment restrictions in accordance with the Catalog. Since foreign investment in such business areas in which we currently operate are subject to restrictions under the current applicable PRC laws and regulations, as advised by our PRC legal advisor, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. For details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements – Qualification Requirements under the FITE Regulations" and "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment" on pages 195 to 197 and pages 210 to 215 of the Prospectus.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, and 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 interest of our Group and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and New Intergroup Agreements 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.

Risks Relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government finds that the agreements that establish the structure for operating the businesses in China do not comply with the applicable PRC laws and regulations, or if there are 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.
- 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.
- 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.
- The ultimate shareholders of our PRC Holdcos may have conflicts of interest with us, which may materially and adversely affect our business.
- 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.

REPORT OF DIRECTORS

- 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.
- 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 the investment of our Shareholders.

Further details of these risks are set out in the section headed "Risk Factors - Risks relating to Our Contractual Arrangements" on pages 60 to 66 of the Prospectus.

Our Group has adopted measures to ensure the effective operation of our Group's businesses with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements, including:

(a) 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;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year; and

(c) 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 WFOEs and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

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, 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.

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;

(b) no change without independent Shareholders' approval;

(c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

REPORT OF DIRECTORS

(d) 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; and

(e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

Annual Review by the Independent Non-Executive Directors and the Auditor

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(a) the transactions carried out during the year ended December 31, 2017 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(b) no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group;

(c) no new contracts had been entered into, renewed and/or reproduced between our Group and the Consolidated Affiliated Entities during the year ended December 31, 2017; and

(d) the Contractual Arrangements had been 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 interest of our Group and our Shareholders as a whole.

Our Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2017 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to our Group.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB2,000,000.

REPORT OF DIRECTORS

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

Reference is made to the section headed "Business - Legal Proceedings and Compliance" in the Prospectus, in relation to, among other things, a series of legal proceedings brought by Migu Digital Media Co., Ltd. (咪咕數字傳媒有限公司), a subsidiary of China Mobile Limited, and the legal proceedings brought by Ms. Zhang Baohua, updates of which are set out as follows:

- the courts handling the series of legal proceedings brought by Migu Digital Media Co., Ltd. have not yet notified the Company of the date of court hearing, and the Company has not yet attended any court hearings as of the date of bulk printing of this annual report; and
- as of the end of the Reporting Period, Ms. Zhang Baohua has withdrawn her claims against us, and the People's Court of Haidian District of Beijing has issued a verdict confirming the withdrawal and close of the legal proceedings.

Compliance

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 MOC, the Ministry of Industry and Information Technology, or MIIT, the General Administration of Press and Publication, Radio, Film and Television, or GAPPRFT 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.

Change of the PRC regulatory environment may have adverse impact on our business operation. In particular, 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. We are closely monitoring the status of the enactment of the Draft Foreign Investment Law, and will take necessary steps to mitigate the risks against us, if any.

For details please refer to the relevant disclosure in the section headed "Risk Factors" in the Prospectus.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of his duties in his office. The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The important events after the Reporting Period are disclosed in Note 42 to the consolidated financial statements.

REPORT OF DIRECTORS

AUDIT COMMITTEE

The Audit Committee had, together with the Auditor, reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements during the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 49 to 62 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as of the date of this annual report.

CLOSURE OF THE REGISTER OF MEMBERS

The Company will hold the AGM on May 18, 2018. The register of members of the Company will be closed from Tuesday, May 15, 2018 to Friday, May 18, 2018, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, May 14, 2018.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the Shares, they are advised to consult an expert.

AUDITOR

PricewaterhouseCoopers was appointed as the Auditor during the Reporting Period. The accompanying financial statements prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditor will be proposed at the AGM.

On behalf of the Board
Mr. James Gordon Mitchell
Chairman of the Board and Non-executive Director

Shenzhen, April 9, 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the Relevant Period.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in this annual report, the Company has complied with all applicable code provisions under the CG Code throughout the Relevant Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Board Composition

As of the date of this annual report, the Board comprises 2 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors as follows:

Executive Directors:

Mr. Wu Wenhui *(Co-Chief Executive Officer)*
Mr. Liang Xiaodong *(Co-Chief Executive Officer)*

Non-executive Directors:

Mr. James Gordon Mitchell *(Chairman)*
Mr. Lin Haifeng
Ms. Li Ming
Mr. Yang Xiang Dong

Independent Non-executive Directors:

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

CORPORATE GOVERNANCE REPORT

During the Relevant Period, the Board has met at all times the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. The Board diversity policy is summarized below:

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the code provision of the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity of the public companies or organizations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

CORPORATE GOVERNANCE REPORT

Induction and Continuous Professional Development

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

According to the information provided by the Directors, a summary of training received by the Directors throughout the Relevant Period is as follows:

Name of Directors	**Nature of Continuous Professional Development Programmes**
Executive Directors	
Mr. Wu Wenhui	A, B, C and D
Mr. Liang Xiaodong	A, B, C and D
Non-executive Directors	
Mr. James Gordon Mitchell	A, B, C and D
Mr. Lin Haifeng	C and D
Ms. Li Ming	C and D
Mr. Yang Xiang Dong	A, B, C and D
Independent Non-executive Directors	
Ms. Yu Chor Woon Carol	C and D
Ms. Leung Sau Ting Miranda	C and D
Mr. Liu Junmin	A, C and D

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Attending training relevant to the Company's business conducted by lawyers

D: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

CORPORATE GOVERNANCE REPORT

Co-Chief Executive Officers

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the Co-Chief Executive Officers are currently two separate positions held by Mr. James Gordon Mitchell as the chairman of the Board and Mr. Wu Wenhui and Mr. Liang Xiaodong as Co-Chief Executive Officers, with clear distinction in responsibilities. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Co-Chief Executive Officers are responsible for the day-to-day operations of the Group.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company on June 23, 2017 for an initial term of three years with effect from the date the appointment approved by the Board until the third annual general meeting of the Company since the Listing Date (whichever is sooner), subject to termination as provided in the service contract.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years on October 19, 2017 commencing from the date of the Prospectus until the third annual general meeting of the Company since the Listing Date, whichever ends earlier.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the relevant papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the joint company secretary with copies circulated to all Directors or Board Committee members for information and records.

CORPORATE GOVERNANCE REPORT

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors/Board Committee members. Draft and final versions of the minutes of each Board meeting and Board Committee meeting are sent to the Directors/Board Committee members for comments and records respectively within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

No Board meeting or general meeting of the Company was held during the Relevant Period. As the Company was listed in November 2017, the Board did not have any matters to discuss during the Relevant Period which is less than two months. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the Relevant Period.

For the Relevant Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision right for all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

1. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

CORPORATE GOVERNANCE REPORT

4. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

6. to review and monitor the Company's compliance with the Company's whistle-blowing policy.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, namely Ms. Yu Chor Woon Carol (Chairman), Mr. Yang Xiang Dong and Ms. Leung Sau Ting Miranda, majority of them are independent non-executive Directors.

The principal duties of the Audit Committee include the following:

1. to review the relationship with the Auditor by reference to the work performed by the Auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the Auditor;

2. to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the Auditor before submission to the Board; and

3. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

Code provision C3.3(e) (i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e) (i) of the CG Code during the Relevant Period. However, the Audit Committee did not hold any meetings with the Auditor during the Relevant Period because the Audit Committee did not have any matters that need to be discussed with the Auditor shortly after the Company's listing. The Audit Committee will fully comply with its terms of reference.

Nomination Committee

The Nomination Committee currently comprises three members, including 1 non-executive Director namely Mr. James Gordon Mitchell (chairman) and two independent non-executive Directors namely Ms. Yu Chor Woon Carol and Mr. Liu Junmin.

The principal duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

CORPORATE GOVERNANCE REPORT

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive; and

5. to review the Board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

No meeting of the Nomination Committee was held during the Relevant Period.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Ms. Leung Sau Ting Miranda (chairman) and Ms. Yu Chor Woon Carol and one executive Director namely Mr. Wu Wenhui.

The principal duties of the Remuneration Committee include the following:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

No meeting of the Remuneration Committee was held during the Relevant Period.

CORPORATE GOVERNANCE REPORT

Strategy and Investment Committee

The Strategy and Investment Committee comprises five members, including two executive Directors namely Mr. Wu Wenhui and Mr. Liang Xiaodong, and three non-executive Directors namely Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Li Ming.

The principal 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.

No meeting of the Strategy and Investment Committee was held during the Relevant Period.

Remuneration of Directors and Senior Management

Please refer to Note 8 to the consolidated financial statements for details of remuneration of members of the Board for the year ended December 31, 2017.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on pages 20 to 23 of this annual report, for the year ended December 31, 2017 are set out below:

Remuneration band (RMB)	Number of individual
0	4
1 - 5,000,000	5
>5,000,000	3

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 68 to 69 of this annual report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's business strategies. The risk management and internal control systems shall also ensure the achievement of the Company's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with applicable laws, regulations and policies.

The Board acknowledges that it is the Board's responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The Board delegates its responsibility to the Audit Committee to review the establishment and practices of management with respect to risk management and internal control systems formally on a half-yearly basis. The Audit Committee also reviews the effectiveness of the risk management and internal control systems on an annual basis. The Board is also responsible for overseeing the key risks of the Company, including determining the level of risk the Company expects and is able to take, and proactively considering, analyzing and formulating strategies to manage the key risks that the Company is exposed to. The Audit Committee oversees the management of the design, implementation and monitoring of risk management and internal control systems. The senior management team also provides all necessary and relevant information to the Board, giving the Directors sufficient explanation and information they need to discharge their responsibilities and make an informed assessment of financial and other information put before them for approval. The internal audit team of the Company has direct reporting lines to the Audit Committee. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Risk Management

The Company is committed to continuously improving the risk management system, including structure, process and culture, through the enhancement of risk management ability, to ensure long-term growth and sustainable development of the Company's business. The Company has established a risk management system which sets out the roles and responsibilities of each relevant party as well as the relevant risk management policies and processes. Each business group of the Company, on a regular basis, identifies and assesses risk factors that may negatively impact the achievement of its objectives, and formulates appropriate response measures.

The Company has adopted dynamic risk management process including risk identification, risk analysis, risk assessment, risk response, risk monitoring, and risk reporting in response to identify significant risks of the Company in 2017.

The Audit Committee assists the Board in supervising the overall risk status of the Company and evaluating the change in the nature and severity of the Company's major risks. The Audit Committee considers that the management of the Company has taken appropriate measures to address and manage the key risks which they are responsible for at a level acceptable to the Board.

Below is a summary of the significant risks of the Company along with the applicable response strategies. With the growth of business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

CORPORATE GOVERNANCE REPORT

Market Competition Risk

The Company faces competition in every aspect of our business, and particularly from other companies that provide online platform services for literary creation, consumption and distribution. We compete primarily with other online literature websites and mobile apps in China, with internet companies which offer internet media services, with social network service providers, with content providers that focus exclusively on a specific genre of content also featured by us, including our popular media accounts and physical book publishing companies. The competition above may significantly increase the market price for literary content, which cause us to lose our existing or potential writers and readers, and therefore materially and adversely affect the Company's businesses, financial condition and operating results.

The Company focuses on the experience of writers and readers by keeping track of the development of writers in a timely manner, capturing changes of reading experience, continuously optimizing products through new technologies, encouraging writers to output more IPs which meet the expectations and interests of the readers and market through innovations of management, and enhancing the cooperation of business partners in order to consolidate the Company's leading position in the industry.

Intellectual Property Protection Risk

Piracy is long-standing problem in China, particularly in the content industry. Many websites and mobile apps in China attract user traffic by making pirated content available for free and derive advertising revenues from such pirated content. Online literary piracy undermines the paid reading model of the Company and may adversely and significantly affect core competency and success of the Company.

The Company has set up several professional departments and teams, which may promptly collect infringement acts and evidences along with other business departments of the Company, initiate lawsuits in relevant jurisdictions and claim losses incurred, and combat unauthorized third parties.

Compliance Risk

Although the internet and technology industry is still evolving, regulatory authorities in numerous jurisdictions have been, in an attempt to keep up with such evolution, developing more comprehensive and stringent regulations to regulate the industry, including obtaining and maintaining necessary licenses, approvals and permits relevant to applicable business. As the Company is continuously expanding its businesses in the PRC and overseas, it is required to comply with the new applicable laws and regulations in different jurisdictions that are specifically relevant to the Company's businesses, such as laws relating to data protection, internet information security, IP and etc. Any changes in governance policies and regulations could have a negative impact on the business, financial condition and operating results of the Company.

The Company has set up several professional departments and teams that work closely with management of business groups to monitor and identify changes in any relevant laws and regulations, so as to take appropriate actions or measures to ensure the Company is in compliance with applicable laws and regulations.

CORPORATE GOVERNANCE REPORT

Information System Risk

The Company needs to collect, process and keep user information and relevant business data during business operations. The Company is fully aware that any loss or leakage of sensitive information could have a negative impact on affected users and the Company's reputation, even lead to potential legal action against the Company.

The Company is obliged to protect sensitive user information and as such, the Company strives to provide the highest level of protection to such data. In this regard, the Company has formulated policies and control measures to protect user data. Information security is ensured through effective management systems, encryption, access restrictions and process protocols. In addition, the Company performs review periodically and engages independent specialists to review the Company's data protection practices and provides training programs to employees to enhance their awareness of information security.

Human Resources Risk

Historical business of the Company has been developing rapidly. The internet industry is highly dependent on basic qualities of employees, therefore, enhancing, training and management of qualities of growing population of employees is highly important for business development of the Company.

The Company attaches great importance to employees' growth, including providing specialized training tailored to the needs of employees in different departments, and employee handbook containing internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanism, negligence and corruption. The Company has also adopted an Anti-Corruption Policy to safeguard against any corruption within the Company.

With respect to dissemination of inside information, the Company has adopted its Inside Information Disclosure Policy setting out the statutory obligations of disclosure of inside information, the procedures of proper protection and disclosure of inside information, and requirements on the communication with media and analysts.

Internal Control

Management of the Company is responsible for the design, implementation and maintenance of the effectiveness of internal control systems. The Board and the Audit Committee are responsible for monitoring and overseeing the performance of management over the internal control systems to ensure it is appropriate and effective.

The Company's internal control systems clearly define roles and responsibilities of each party as well as authorizations and approvals required for key actions of the Company. Policies and procedures are put in place for the key business processes. This information is also clearly conveyed to employees in practice and plays an important role in internal control systems. All employees must strictly follow the policies which cover, amongst other things, financial, legal and operational issues that set the control standards for the management of each business process.

Management Self-assessment

In order to further strengthen the accountability of the management team in the internal control systems of the Company and to assist in determining the effectiveness of such internal control systems, the management team of each business group conducts self-assessment and confirms the internal control status of the business group for which it is responsible. The internal audit

CORPORATE GOVERNANCE REPORT

team assists the management in preparing a self-assessment questionnaire according to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework, and guides the management of each business group to carry out the self-assessment. The internal audit team is also responsible for collecting and summarizing the results of self-assessment. The Chief Executive Officer and the President of the Company reviews this summarized self-assessment of each business group, assesses the general effectiveness of the internal control systems of the Company, and submits the written confirmation thereof on behalf of the senior management team of the Company to the Audit Committee and the Board.

In addition, the internal audit team supervises the establishment of the risk management and internal control systems set up by the management, monitor that the management has implemented appropriate measures, assess objectively the effectiveness of risk management and internal control systems of the Company and report to the Audit Committee at least on an annual basis.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with management of business groups, internal audit team, legal, personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Board is of the view that throughout the year ended December 31, 2017, the risk management and internal control systems of the Company are effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Based on the work report from the Audit Committee, the Board also believes that the Company's internal audit function is adequate with sufficient resources and budget. The relevant staff has appropriate qualifications and experience, and receives sufficient training and development.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended December 31, 2017 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit and audit related services*	12,552
Non-audit services related to tax consultation	311
Total	12,863

Note

* The amount of audit and audit related services fee comprises the professional service fee charged to the Group's consolidated statement of comprehensive income for the year ended December 31, 2017 in connection with the initial public offering of the Company and the service fee for the audit of the Group's 2017 consolidated financial statements.

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Mr. Zhao Jincheng ("**Mr. Zhao**"), the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Lai Siu Kuen ("**Ms. Lai**"), an associate director of TMF Hong Kong Limited (a company secretarial service provider), as the other joint company secretary to assist Mr. Zhao to discharge his duties as a company secretary of the Company. The primary corporate contact person at the Company is Mr. Zhao, the joint company secretary of the Company.

For the year ended December 31, 2017, Mr. Zhao and Ms. Lai have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the AGM to answer Shareholders' questions. The Auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at http://ir.yuewen.com/, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

From the Listing Date up to the date of this annual report, the Company did not convene any general meetings.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

CORPORATE GOVERNANCE REPORT

Convening of Extraordinary General Meeting and Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as of date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretaries of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Block 6, No. 690 Bi Bo Road, Pudong XinQu, Shanghai, People's Republic of China (email address: ir@yuewen.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association of the Company has been amended and restated with effect from November 8, 2017.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the shareholders of China Literature Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Literature Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 184, which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessments of goodwill and other intangible assets
- Classification of investments
- Fair value measurement of investments in redeemable shares of associates

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill and other intangible assets Refer to Notes 2.7, 2.9 and 16 to the consolidated financial statements During the year ended December 31, 2017, the Group had recognised impairment provision of nil, RMB71.1 million and RMB85.2 million for its goodwill, distribution channel relationship and trademarks, respectively. As at December 31, 2017, the net carrying amount of goodwill, distribution channel relationship and trademarks amounted to RMB3,720.3 million, RMB4.8 million and RMB466.8 million, respectively. We focused on this area due to the magnitude of the carrying amounts of goodwill and the magnitude of the impairment provision in respect of distribution channel relationship and trademarks during the year ended December 31, 2017, and the fact that significant judgements were required by management (i) to identify whether any impairment indicators existed for any of these assets during the year; (ii) to determine the appropriate recoverable amounts, being higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations; and (iii) to select key assumptions to be adopted in the valuation models, including discounted cash flows and market approach, for the impairment assessments.	We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with management and market information. We also tested key controls in respect of the impairment assessments, including the implementation of impairment standard, the determination of appropriate valuation models and assumptions and the calculation of impairment provisions, which we found no material exceptions. The goodwill of the Group 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 cash generating unit ("CGU") to which the goodwill is allocated is the whole Group, being the only operating segment. As at December 31, 2017, the recoverable amount of this Group was determined based on FVLCD, which was estimated by management with reference to the transaction price of the Company's listed shares in the Main Board of The Stock Exchange of Hong Kong Limited. We assessed the reasonableness of the basis management used to identify separate group of CGU that containing goodwill and the method used in management's impairment assessments of goodwill, which we found them to be appropriate.

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2017

Key Audit Matter	How our audit addressed the Key Audit Matter
	Given there are no active market for the Group's intangible assets of distribution channel relationship and trademarks, the recoverable amounts of the distribution channel relationship and trademarks were determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment. We assessed the key assumptions adopted including annual growth rates and operating margin by examining the approved revenue forecast models, and comparing actual results for the year against the previous period's forecasts and the applicable business data of the Group. We also assessed certain key valuation assumptions including discount rate with the involvement of our internal valuation experts. We considered that the key assumptions adopted by management are in line with our expectation and evidence obtained. We independently tested the accuracy of mathematical calculation applied in the valuation models and the calculation of impairment provisions. We did not identify any material exceptions from our testing.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Classification of investments Refer to Notes 2.10, 17, 18 and 26 to the consolidated financial statements During the year ended December 31, 2017, the Group made significant amounts of investments under different arrangements or in different forms of financial instruments, in an aggregate amount of approximately RMB237.7 million. We focused on this area due to the magnitude of the investments and the fact that significant judgements were made by management in determining the appropriate classification for certain investments that involved complex terms and arrangements.	We read the contracts and agreements in relation to those significant investments made in the current year and discussed with management to obtain an understanding on the details of such investments, including relevant activities of the investee companies and how decisions about those activities are made, how the Group and other investors participate in the decisions, other arrangements or transactions among the Group, other investors and the investee companies and respective returns from the investments. We discussed with management and obtained management assessment to understand their critical judgements and the classification that they had applied. We also corroborated the critical underlying evidences, based on which the management made the assessments and applied critical judgements. In addition, we assessed the terms and conditions of selected significant investments, including evaluation of indication or evidence of power found in the detailed arrangement of these investments, in order to assess whether appropriate classification had been adopted by management in relation to those investments based on the consideration of the totality of facts, which we found no material exceptions.

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2017

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of investments in redeemable shares of associates Refer to Notes 2.10, 3.3 and 18 to the consolidated financial statements As at December 31, 2017, the Group had financial assets that carried at fair value, of which investments in redeemable shares of associates of approximately RMB267.0 million were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". We focused on this area due to the high degree of judgement required in determining the respective fair values of Level 3 financial instruments, which do not have direct open market quoted values, with respect to the adoption of applicable valuation methodology (e.g. market approach) and the application of appropriate assumptions (e.g. IPO probability) in the valuation.	In respect of the fair value measurement of Level 3 financial instruments, we tested the key controls, on a sample basis, in relation to the valuation process including the adoption of applicable valuation methodology and the application of appropriate assumptions in different circumstances, by inspection of the evidence of management's review, which we found no material exceptions. We involved our internal valuation experts to discuss with management and assess the appropriateness of valuation methodology and assumptions used. We tested the valuation of Level 3 financial instruments as at December 31, 2017 by evaluating the underlying assumptions including IPO probability, etc., based on our industry knowledge as well as the information of related equity transactions and comparable companies. We found that the valuation methodology of Level 3 financial instruments is acceptable and the assumptions made by management are supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheuk Chi Shing.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 19, 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

		Year ended December 31,	
		2017	2016
	Note	**RMB'000**	RMB'000
Revenues	6	**4,095,066**	2,556,866
Cost of revenues	7	**(2,019,626)**	(1,502,019)
Gross profit		**2,075,440**	1,054,847
Selling and marketing expenses	7	**(965,121)**	(734,176)
General and administrative expenses	7	**(710,266)**	(421,264)
Other gains, net	9	**110,723**	133,916
Operating profit		**510,776**	33,323
Finance costs	10	**(35,170)**	(27,092)
Finance income	11	**103,787**	3,939
Share of profit of investments accounted for using equity method	17	**66,337**	28,148
Profit before income tax		**645,730**	38,318
Income tax expense	12	**(83,038)**	(7,958)
Profit for the year		**562,692**	30,360
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		**(150,130)**	27,229
Total comprehensive income for the year		**412,562**	57,589
Profit attributable to:			
Equity holders of the Company		**556,129**	36,683
Non-controlling interests		**6,563**	(6,323)
		562,692	30,360
Total comprehensive income attributable to:			
Equity holders of the Company		**405,999**	63,912
Non-controlling interests		**6,563**	(6,323)
		412,562	57,589
Earnings/(loss) per share (expressed in RMB per share)			
– Basic earnings per share	13(a)	**0.74**	0.05
– Diluted earnings/(loss) per share	13(b)	**0.72**	(0.08)

The notes on pages 77 to 184 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

	Note	As of December 31, 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**36,050**	45,018
Intangible assets	16	**4,501,097**	4,681,540
Investments accounted for using the equity method	17	**342,314**	127,158
Investments in redeemable shares of associates	18	**267,000**	106,508
Derivative financial assets	20	**37,594**	7,500
Deferred income tax assets	21	**20,326**	28,429
Prepayments, deposits and other assets	22	**22,868**	20,340
Term deposits	27	**450,860**	—
Other investments	26(b)	**25,128**	—
		5,703,237	5,016,493
Current assets			
Inventories	23	**222,486**	137,920
Trade and notes receivables	25	**759,983**	549,952
Prepayments, deposits and other assets	22	**295,812**	621,929
Other investments	26(a)	**—**	368,271
Term deposits	27	**653,420**	—
Cash and cash equivalents	27	**7,502,430**	404,915
Assets of disposal group classified as held-for-sale	24	**—**	32,225
		9,434,131	2,115,212
Total assets		**15,137,368**	7,131,705
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**569**	431
Shares held for RSU scheme	34	**(23)**	—
Share premium	34	**12,143,464**	5,311,029
Other reserves	35	**309,232**	210,878
Retained earnings/(accumulated losses)		**167,954**	(356,113)
		12,621,196	5,166,225
Non-controlling interests		**41,514**	42,057
Total equity		**12,662,710**	5,208,282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

		As of December 31,	
	Note	**2017** **RMB'000**	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	**475,000**	—
Deferred income tax liabilities	21	**193,907**	220,993
Deferred revenue	33	**41,585**	43,964
		710,492	264,957
Current liabilities			
Put option liability	29	**—**	73,455
Borrowings	30	**—**	541,622
Trade payables	31	**656,953**	419,697
Other payables and accruals	32	**719,646**	377,007
Deferred revenue	33	**352,876**	232,421
Current income tax liabilities		**34,691**	10,834
Liabilities of disposal group classified as held-for-sale	24	**—**	3,430
		1,764,166	1,658,466
Total liabilities		**2,474,658**	1,923,423
Total equity and liabilities		**15,137,368**	7,131,705

The notes on pages 77 to 184 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 70 to 184 were approved by the Board of Directors on March 19, 2018 and were signed on its behalf:

Wu Wenhui
Director

Liang Xiaodong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2017	431	5,311,029	—	210,878	(356,113)	5,166,225	42,057	5,208,282
Comprehensive income								
Profit for the year	—	—	—	—	556,129	556,129	6,563	562,692
Other comprehensive loss								
– Currency translation differences	—	—	—	(150,130)	—	(150,130)	—	(150,130)
Total comprehensive income for the year	—	—	—	(150,130)	556,129	405,999	6,563	412,562
Transaction with owners								
Share-based compensation expenses (Note 36)	—	—	—	137,446	—	137,446	—	137,446
Issuance of ordinary shares	111	7,038,676	—	—	—	7,038,787	—	7,038,787
Issuance of shares held for RSU scheme	27	—	(27)	—	—	—	—	—
Share issuance costs	—	(206,237)	—	—	—	(206,237)	—	(206,237)
Transfer of vested RSUs	—	(4)	4	—	—	—	—	—
Non-controlling interests arising from business combination	—	—	—	—	—	—	46	46
Disposal of equity interests in non-wholly owned subsidiaries	—	—	—	—	—	—	(7,152)	(7,152)
Expiry of put option liability (Note 29)	—	—	—	76,360	—	76,360	—	76,360
Profit appropriations to statutory reserves (Note 35)	—	—	—	32,062	(32,062)	—	—	—
Others	—	—	—	2,616	—	2,616	—	2,616
Total transactions with owners recognized directly in equity for the year	138	6,832,435	(23)	248,484	(32,062)	7,048,972	(7,106)	7,041,866
As of December 31, 2017	569	12,143,464	(23)	309,232	167,954	12,621,196	41,514	12,662,710

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2016	409	4,658,606	—	94,563	(378,110)	4,375,468	82,491	4,457,959
Comprehensive income								
Profit for the year	—	—	—	—	36,683	36,683	(6,323)	30,360
Other comprehensive income								
– Currency translation differences	—	—	—	27,229	—	27,229	—	27,229
Total comprehensive income for the year	—	—	—	27,229	36,683	63,912	(6,323)	57,589
Transaction with owners								
Share-based compensation expenses (Note 36)	—	—	—	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 35)	—	—	—	14,686	(14,686)	—	—	—
Others	—	—	—	3,658	—	3,658	—	3,658
Total transactions with owners recognized directly in equity for the year	22	652,423	—	89,086	(14,686)	726,845	(34,111)	692,734
As of December 31, 2016	431	5,311,029	—	210,878	(356,113)	5,166,225	42,057	5,208,282

The notes on pages 77 to 184 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	Note	Year ended December 31, 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash provided by operations	39	**963,611**	226,098
Income tax paid		**(77,901)**	(40,311)
Net cash flows generated from operating activities		**885,710**	185,787
Cash flows from investing activities			
Payments for business combinations, net of cash acquired		**(7,693)**	—
Placement of term deposits with initial term of over three months		**(1,128,754)**	—
Receipt from maturity of term deposit with initial term of over three months		**—**	10,000
Payment for short-term investments		**(2,881,200)**	(2,072,900)
Proceeds from disposals of short-term investments		**3,254,473**	2,003,672
Acquisition of investments in associates and a joint venture		**(107,400)**	(63,300)
Purchase of property, plant and equipment		**(17,729)**	(19,861)
Purchase of intangible assets		**(115,588)**	(113,231)
Proceeds from disposals of property, plant and equipment		**2,239**	272
Proceeds from disposal of investment in associates		**—**	3,100
Net cash inflow/(outflow) arising from disposal of subsidiaries		**17,429**	(1,374)
Interest received		**50,607**	3,059
Receipt from maturity of deposits placed with related parties		**500,000**	—
Dividends received		**781**	—
Increase in amounts due from related parties		**—**	(213,187)
Net cash flows used in investing activities		**(432,835)**	(463,750)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**475,000**	241,622
Repayments of borrowings	**(540,046)**	(247)
Finance costs paid	**(59,465)**	—
Payment of ordinary shares issuance costs	**(206,237)**	—
Redemption of convertible bonds	**—**	(493,324)
Settlement related to the acquisition of non-controlling interests	**—**	(49,246)
Proceeds from issuance of ordinary shares	**7,038,787**	652,445
Capital injection from a non-controlling interest shareholder	**—**	9,000
Payment for guarantee fee	**(3,128)**	—
Repayment of non-trade payable due to a related party	**(35,000)**	—
Interest income on IPO subscription deposits	**55,575**	—
Net cash flows provided by financing activities	**6,725,486**	360,250
Net increase in cash and cash equivalents	**7,178,361**	82,287
Cash and cash equivalents at the beginning of the year	**404,915**	331,090
Cash and cash equivalents of disposal group	**—**	(9,667)
Exchange (losses)/gains on cash and cash equivalents	**(80,846)**	1,205
Cash and cash equivalents at the end of the year	**7,502,430**	404,915

The notes on pages 77 to 184 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

1 GENERAL INFORMATION, REORGANIZATION 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's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since November 8, 2017 (the "Listing").

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "Group"), are principally engaged in the provision of reading services (either free or paid), copyright commercialization (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realization of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the People's Republic of China (the "PRC").

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 reorganization of the Group

Prior to the incorporation of the Company and the completion of the reorganization (the "Reorganization") as described below, the Group's existing business excluding the businesses acquired during the year of 2014 (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 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 ("Cloudary").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganization of the Group (Continued)

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, recognize 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 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.3 Basis of presentation

Immediately prior to the Reorganization, 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 Reorganization. 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 these financial statements, 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 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 these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 Compliance with IFRS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Historical cost convention

The financial statements have been prepared on a historical cost basis, 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.

2.1.3 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017:

Amendments to IAS 12	Income taxes
Amendments to IAS 7	Statement of cash flows
Amendment to IFRS 12	Disclosure of interest in other entities

The adoption of these amendments did not have any impact on the amounts recognized in prior years. Most of the amendments will also not affect the current or future years.

2.1.4 New standards and interpretations not yet adopted

Standards, amendments and interpretations that have been issued but not yet effective on January 1, 2017 and not been early adopted by the Group in preparing the consolidated financial statements, are as follows:

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IFRS 2	Share-based payment: Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IAS 28	Investments in associates and joint ventures	January 1, 2018
IFRS 16	Lease	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.4 New standards and interpretations not yet adopted (Continued)

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.5 Changes in accounting policy and disclosures

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: amortized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.5 Changes in accounting policy and disclosures (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.5 Changes in accounting policy and disclosures (Continued)

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 statement of financial position, set out in Note 37. 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 statement 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 statement 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 statement of comprehensive income, the operating lease expenses will decrease, while depreciation and amortization and the interest expense will increase. The Group's future aggregate minimum lease payments under non-cancellable operating leases as of December 31, 2017 are approximately RMB158,186,000. (Less than one year is approximately RMB44,395,000, more than one year and less than five years is approximately RMB108,261,000, more than five years is approximately RMB5,530,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of financial position and statement of changes in equity respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.2 Associates (Continued)

(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 where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated statement of comprehensive income, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.2 Associates (Continued)

(a) Investments in associates in the form of ordinary shares (Continued)

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.

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.

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.3 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 recognizes 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 recognize 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized 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.

2.2.4 Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

2.2.4 Change in ownership interests (Continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

(i) fair values of the assets transferred

(ii) liabilities incurred to the former owners of the acquired business

(iii) equity interests issued by the Group

(iv) fair value of any asset or liability resulting from a contingent consideration arrangement, and

(v) fair value of any pre-existing equity interest in the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (Continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

(i) consideration transferred,

(ii) amount of any non-controlling interest in the acquired entity, and

(iii) acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries 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 dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 ("USD"). 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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

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 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, net" in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (Continued)

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 amortization. Amortization 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(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 amortized 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 amortization and impairment losses, if any. Amortization 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 amortized 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 if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Non-current assets (or disposal groups) held-for-sale (Continued)

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Investments and other 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 investments were acquired, management's intentions and whether the assets are quoted in an active market. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (Continued)

2.10.1 Classification (Continued)

(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. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables mainly comprise "Trade and notes receivables", "Prepayments, deposits and other assets" (excluding prepayments), "Other investments — TV drama participation investments (principal and return guaranteed)", "Term deposits" and "Cash and cash equivalents" in the consolidated statement of financial position.

(iii) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at fair value through profit or loss, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2.10.2 Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (Continued)

2.10.3 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

2.10.4 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables is subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

(i) for 'financial assets at fair value through profit or loss' - in profit or loss within other income or other expenses

(ii) for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income or loss

(iii) for other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income or loss.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.12 Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortized cost

For loans and receivables, the amount of the 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 loss is recognized in profit 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 profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (Continued)

(b) Assets classified as available-for-sale financial assets

If there is objective evidence of impairment for available-for-sale financial assets, 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 profit or loss - is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit 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 mainly consist of paper and books, TV drama production costs under joint operations, animation production costs and side-line merchandise for sale. 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 realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. TV drama production costs under joint operations, animation production costs and side-line merchandise for sale are stated at the lower of cost or net realisable 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 amortized cost using the effective interest method, less provision for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 amortized cost using the effective interest method.

2.19 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 recognize 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit 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 prepayment for liquidity services and amortized 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.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. During the year ended December 31, 2017, no borrowing costs were capitalized by the Group (2016: Nil).

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 statement of comprehensive income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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 the 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

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Investment allowances and similar tax incentives

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognized for unclaimed tax credits that are carried forward as deferred tax assets.

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 organized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(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 recognize the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(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 recognising 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 of 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(d) Share-based compensation benefits of the Group (Continued)

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 surcharged. The Group recognizes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue recognition (Continued)

(a) Online paid reading

The Group generates revenue from the sale of online premium literature content to the users primarily through its products, its 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue recognition (Continued)

(b) Intellectual property operations

The Group 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 continual 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. The Group also generates revenues from production and distribution of animated works. Revenue from production of animation is recognized when the animated work is delivered to the online publisher and the right to receive payment is established.

(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 recognizes the revenue until the settlement with the distributor. With respect to the distributors that provide real time information about the books sold, the Group recognizes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue recognition (Continued)

(d) Other revenues (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 not transferred to the Group as lessee are classified as operating leases (Note 37). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

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 amortized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

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 minimize 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

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, Hong Kong Dollars ("HKD") and USD. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. The functional currency of the Company and majority of its overseas subsidiaries is USD whereas the functional currency of the subsidiaries which operate in the PRC is RMB.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

As of December 31, 2017, the Group's major monetary assets and liabilities that exposed to foreign exchange risk are listed below:

	USD RMB'000	RMB RMB'000	HKD RMB'000
As of December 31, 2017			
Monetary assets, current	**14,729**	**1,396,068**	**880,943**
As of December 31, 2016			
Monetary assets, current	3,343	533,253	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As the HKD is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and the USD to be insignificant.

For the PRC subsidiaries whose functional currencies are RMB, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the post-tax profit for the year ended December 31, 2017 would have been approximately RMB1,125,000 higher/lower (2016: RMB264,000), mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. For group companies outside of the PRC whose functional currencies are USD, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, the post-tax profit for the year ended December 31, 2017 would have been approximately RMB139,607,000 higher/lower (2016: RMB53,325,000) mainly as a result of net foreign exchange gain/loss on translation of net monetary assets denominated in RMB.

(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 loans receivable from related parties, other investments - short-term investments, term deposits and cash and cash equivalents, details of which have been disclosed in Notes 22, 26 and 27, respectively.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 30. 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 of December 31, 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 of December 31, 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 year ended December 31, 2017 would have been approximately RMB1,566,000 lower/higher, mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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 content distribution partners (including Tencent's platforms) in Mainland China. If the strategic relationship with content distribution partners is terminated or scaled-back; or if 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 content distribution partners to ensure effective credit control. In view of the history of cooperation with 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total RMB'000
As of December 31, 2017				
Trade payables	**656,953**	**—**	**—**	**656,953**
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable)	**349,848**	**4,896**	**—**	**354,744**
Borrowings	**—**	**475,000**	**—**	**475,000**
Total:	**1,006,801**	**479,896**	**—**	**1,486,697**
As of December 31, 2016				
Trade payables	419,697	—	—	419,697
Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable)	252,838	—	—	252,838
Borrowings	541,622	—	—	541,622
Put option liability	73,455	—	—	73,455
Total:	1,287,612	—	—	1,287,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 statement of financial position plus net debts. As of December 31, 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 of December 31, 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2017.

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As of December 31, 2017				
Assets				
Derivative financial assets	**—**	**37,594**	**—**	**37,594**
Investments in redeemable shares of associates	**—**	**—**	**267,000**	**267,000**
Liabilities				
Consideration payable related to the acquisition of Cloudary's non-controlling interests	**—**	**—**	**500**	**500**

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2016				
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's non-controlling interests	—	—	500	500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

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 years ended December 31, 2017 and 2016.

The changes in level 3 instruments for the years ended December 31, 2017 and 2016 are presented in Notes 18, 20 and 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

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 As of December 31, 2017 RMB'000	Fair value As of December 31, 2016 RMB'000	Significant Unobservable inputs*	Range of inputs As of December 31, 2017	Range of inputs As of December 31, 2016	Relationship of unobservable inputs to fair value
Asset						
Investments in redeemable shares of associates	**267,000**	106,508	IPO probability	**40% and 45%**	45%	For the investee (balance as of December 31, 2017 being RMB200,000,000), the higher the IPO probability, the higher the fair value; for the investee (balance as of December 31, 2017 being RMB67,000,000), the higher the IPO probability, the lower the fair value
Derivative financial assets	**—**	7,500	Spot price	**N/A**	Note a	The higher the spot price, the lower the fair value
			Expected volatility	**N/A**	30%	The higher the expected volatility, the higher the fair value
Liabilities						
Consideration payable related to the acquisition of Cloudary's non-controlling interests	**500**	500	Note b			

Notes

* There were no significant inter relationships between unobservable inputs that materially affect fair values.

(a) The spot price is determined based on equity value of underlying business as of respective date.

(b) The significant unobservable input of consideration payable related to the acquisition of Cloudary'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Sensitivity analysis

For the fair value of the Group's level 3 instruments, namely the investment in redeemable shares of associates and derivative financial assets, reasonably possible changes at December 31, 2017 and 2016 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	As of December 31,			
	2017		2016	
	Changes in fair value (in RMB'000)			
	Increase	**Decrease**	Increase	Decrease
Investments in redeemable shares of associates				
– IPO probability (5% movement)	**1,700**	**(800)**	600	(500)
Derivative financial assets				
– Spot price (5% movement)	**—**	**—**	(200)	200
– Expected volatility (5% movement)	**—**	**—**	200	(200)

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 other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

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.

(b) Fair value measurement of investments in redeemable shares of associates and other financial assets

The fair values assessment of investments in redeemable shares of associates and other financial assets that are measured at level 3 fair value hierarchy required significant estimates, which includes estimating the IPO probability and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for impairment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Classification of investments

The Group made certain significant amounts of investments that involved complex terms and arrangements, and in different forms of financial instruments during the year. Judgement is required in determining the appropriate classification for these investments including assessing the relevant activities of the investee companies and its decisions making process on those activities that involving the Group, if any and its other investors, the rights and power of the Group and other investors on the investee companies, any other arrangements or transactions among the Group, its other investors and/or the investee companies, and the Group's returns from the investments. Different conclusions around these judgements may materially impact how these investments presented and measured in the consolidated statement of financial position of the Group.

(d) Useful lives and amortization charges of intangible assets

The Group's management determines the estimated useful lives and related amortization 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 amortization 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 amortization expense in future periods.

(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 utilised. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

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 of December 31, 2017 and 2016, substantially all of the non-current assets of the Group other than certain long-term receivables (Note 22) and term deposits were located in the PRC.

6 REVENUES

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Online reading		
– on our self-owned platform products	**1,873,557**	1,057,641
– on our self-operated channels on Tencent products	**1,081,944**	666,438
– on our third-party platforms	**465,077**	249,984
Intellectual property operations	**366,221**	247,408
Revenue from sales of physical books	**201,064**	224,033
Others	**107,203**	111,362
	4,095,066	2,556,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

7 EXPENSES BY NATURE

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Content costs (Note a)	**1,280,011**	838,975
Promotion and advertising expenses (Note b)	**603,616**	491,421
Employee benefits expenses (Note 8)	**601,527**	437,410
Online reading platform distribution costs	**237,704**	152,971
Payment handling costs	**211,171**	101,220
Amortization of intangible assets (Note 16)	**154,036**	192,464
Cost of physical inventories sold (Note 23)	**105,185**	108,957
Professional service fees	**95,016**	35,564
Bandwidth and server custody fees	**59,217**	46,925
Animation production costs	**47,960**	28,149
Operating lease rentals	**45,526**	35,853
Travelling, entertainment and general office expenses	**44,461**	29,798
Provision for inventory obsolescence (Note 23)	**39,619**	42,046
Provision for doubtful receivables	**26,019**	1,264
Depreciation of property, plant and equipment (Note 15)	**22,239**	14,531
Game development outsourcing costs	**19,349**	11,019
Online game platform distribution costs	**16,746**	23,165
Auditors' remuneration		
– Audit services	**12,552**	3,792
– Non-audit services	**311**	—
Logistic expenses	**10,243**	8,855
Others	**62,505**	53,080
Total cost of revenues, selling and marketing expenses and general and administrative expenses	**3,695,013**	2,657,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

7 EXPENSES BY NATURE (CONTINUED)

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 statement of comprehensive income.

(b) The pre and post installation promotion expenses that we paid to mobile devices manufactures for our operations of unbranded white-label products are recorded as "selling and marketing expenses" in the consolidated statement of comprehensive income and are categorized as "promotion and advertising expenses".

(c) Research and development expenses (being included in the Group's general and administrative expenses) for the year ended December 31, 2017 was approximately RMB293,363,000 (2016: RMB186,960,000), which mainly included employee benefits expenses of research and development function staff.

8 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**347,148**	279,137
Other social security costs, housing benefits and other employee benefits	**86,960**	52,898
Pension costs — defined contribution plans	**29,973**	27,352
Share-based compensation expenses (Note 36)	**137,446**	78,023
	601,527	437,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Five highest paid individual

The five individuals whose emoluments were the highest in the Group include one director during the year ended December 31, 2017 (2016: one), and their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the remaining four (2016: four) individuals during the year ended December 31, 2017, are as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**9,214**	5,368
Other social security costs, housing benefits and other employee benefits	**259**	275
Pension costs — defined contribution plans	**188**	184
Share-based compensation expenses	**29,705**	23,534
	39,366	29,361

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2017	2016
Emoluments bands:		
HKD10,000,001 to HKD20,000,000	**2**	1
HKD5,000,001 to HKD10,000,000	**2**	3
HKD4,000,001 to HKD5,000,000	**—**	—
HKD3,000,001 to HKD4,000,000	**—**	—
HKD2,000,001 to HKD3,000,000	**—**	—
HKD1,000,001 to HKD2,000,000	**—**	—
	4	4

During the years ended December 31, 2017 and 2016, no director or the five highest paid individuals received any emolument from the Group as an inducement to join or leave the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors

(i) Directors' and the chief executive's emoluments

The remuneration of each director for the year ended December 31, 2017 are set out as follows:

	Director's fee RMB'000	Salaries, wages and bonuses RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Executive directors						
– Wu Wenhui[1]	—	5,447	47	69	—	5,563
– Liang Xiaodong[1]	—	1,500	—	—	10,509	12,009
Non-executive directors						
– James Gordon Mitchell[2]	—	—	—	—	—	—
– Lin Haifeng[1]	—	—	—	—	—	—
– Cheng Wu[3]	—	—	—	—	—	—
– Yang Xiang Dong[4]	—	—	—	—	—	—
– Li Ming[5]	—	—	—	—	—	—
Independent non-executive directors						
– Yu Chor Woon Carol[5]	68	—	—	—	—	68
– Leung Sau Ting Miranda[5]	68	—	—	—	—	68
– Liu Junmin[5]	68	—	—	—	—	68
	204	6,947	47	69	10,509	17,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

(i) Directors' and the chief executive's emoluments (Continued)

The remuneration of each director for the year ended December 31, 2016 are set out as follows:

	Director's fee RMB'000	Salaries, wages and bonuses RMB'000	Pension costs-defined contribution plan RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Executive directors						
– Wu Wenhui(1)	—	3,822	45	67	—	3,934
– Liang Xiaodong(1)	—	—	—	—	17,098	17,098
Non-executive directors	—	—	—	—	—	—
– James Gordon Mitchell(2)	—	—	—	—	—	—
– Lin Haifeng(1)	—	—	—	—	—	—
– Cheng Wu(3)	—	—	—	—	—	—
– Yang Xiang Dong(4)	—	—	—	—	—	—
	—	3,822	45	67	17,098	21,032

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 November 6, 2014 and resigned on October 18, 2017.

(4) Appointed as a director of the Company on May 9, 2016.

(5) Appointed as a director of the Company on October 18, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Benefits and interests of directors (Continued)

(ii) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the year.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

9 OTHER GAINS, NET

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Fair value gain of investments in redeemable shares of associates (Note 18)	**97,492**	32,500
Gain/(loss) on disposals of subsidiaries (Note 24)	**60,888**	(746)
Government subsidies	**32,584**	48,252
Fair value gain/(loss) of derivative financial assets (Note 20)	**30,094**	(1,200)
Foreign exchange gain/(loss), net	**24,640**	(19,622)
Gain on copyright infringements	**11,668**	7,128
Interest income on investments and loans receivable	**9,183**	14,861
Fair value gain on financial assets at fair value through profit or loss (Note 26)	**5,002**	11,594
Gain on redemption of convertible bonds (Note 28)	**—**	92,207
Impairment loss of intangible assets (Note 16)	**(156,254)**	(49,000)
Others, net	**(4,574)**	(2,058)
	110,723	133,916

10 FINANCE COSTS

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Interest expense	**29,843**	22,910
Accretion charges of put option liability (Note 29)	**2,905**	4,182
Guarantee expense	**2,422**	—
	35,170	27,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

11 FINANCE INCOME

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Interest income on IPO subscription deposits	**55,575**	—
Interest income on bank deposits	**48,212**	3,939
	103,787	3,939

12 INCOME TAX EXPENSE

(i) Cayman Islands corporate income tax

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

(ii) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5%. The operation in Hong Kong has incurred net accumulated operating losses for income tax purposes and no income tax provisions are recorded for the periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

12 INCOME TAX EXPENSE (CONTINUED)

(iii) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% for the year ended December 31, 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, 2017 and 2016 according to the applicable CIT Law. In addition, a subsidiary of the Group in the PRC PRC was approved as Software Enterprise (being software enterprise qualified for a double-layered certification), and accordingly, it was subject to a reduced preferential CIT rate of 12.5% for the years ended December 31, 2017 and 2016 according to the applicable CIT Law.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Current tax	**102,021**	35,204
Deferred income tax (Note 21)	**(18,983)**	(27,246)
Income tax expense	**83,038**	7,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

12 INCOME TAX EXPENSE (CONTINUED)

(iii) PRC corporate income tax ("CIT") (Continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the year ended December 31, 2017 (2016: 25%), being the tax rate of the major subsidiaries of the Group. The difference is analyzed as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**645,730**	38,318
Share of profit of investments accounted for using equity method	**(66,337)**	(28,148)
Tax calculated at a tax rate of 25%	**144,848**	2,543
Effects of preferential tax rates applicable to different subsidiaries of the Group	**(71,319)**	(60)
Unrecognized deferred income tax assets	**29,305**	16,486
Non-deductible expenses less non-taxable income	**11,804**	1,523
Research and development tax credit	**(31,600)**	(12,534)
Income tax expense	**83,038**	7,958

13 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings per share for the years ended December 31, 2017 and 2016 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,	
	2017	2016
	RMB'000	RMB'000
Net profit attributable to the equity holders of the Company	**556,129**	36,683
Weighted average number of ordinary shares in issue (thousand)	**749,066**	695,443
Basic earnings per share (expressed in RMB per share)	**0.74**	0.05

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

13 EARNINGS/(LOSS) PER SHARE (CONTINUED)

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

For the year ended December 31, 2017, the Company has the dilutive potential ordinary shares of RSUs granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

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 redemption gain of convertible bonds less related income tax effect. RSUs are not included in the computation of diluted loss 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.

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Net profit attributable to the equity holders of the Company	**556,129**	36,683
Less: Gain on redemption of convertible bonds	**—**	(92,207)
Net profit/(loss) used to determine diluted earnings/(loss) per share	**556,129**	(55,524)
Weighted average number of ordinary shares in issue (thousand)	**749,066**	695,443
Adjustments for convertible bonds (thousand)	**—**	11,729
Adjustments for share based compensation - RSUs (thousand)	**18,356**	—
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousand)	**767,422**	707,172
Diluted earnings/(loss) per share (expressed in RMB per share)	**0.72**	(0.08)

14 DIVIDENDS

No dividends have been paid or declared by the Company during the year ended December 31, 2017 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

15 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At January 1, 2017	38,095	10,023	2,466	1,102	11,593	63,279
Additions	5,587	1,067	275	1,993	6,940	15,862
Disposals	(3,341)	(3,564)	(288)	(6)	—	(7,199)
Transfer from construction in progress	—	15,974	2,552	—	(18,526)	—
Disposal of subsidiaries	—	—	—	(141)	—	(141)
At December 31, 2017	40,341	23,500	5,005	2,948	7	71,801
Accumulated depreciation:						
At January 1, 2017	(9,867)	(7,147)	(1,002)	(245)	—	(18,261)
Depreciation	(14,221)	(6,263)	(1,285)	(470)	—	(22,239)
Disposals	1,103	3,374	150	6	—	4,633
Disposal of subsidiaries	—	—	—	116	—	116
At December 31, 2017	(22,985)	(10,036)	(2,137)	(593)	—	(35,751)
Net carrying amount:						
At January 1, 2017	28,228	2,876	1,464	857	11,593	45,018
At December 31, 2017	17,356	13,464	2,868	2,355	7	36,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Computer equipment RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
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 group (Note 24)	(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
Accumulated depreciation:						
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 group (Note 24)	86	—	7	—	—	93
Disposal of a subsidiary	17	—	9	—	—	26
At December 31, 2016	(9,867)	(7,147)	(1,002)	(245)	—	(18,261)
Net carrying amount:						
At January 1, 2016	29,221	5,306	2,038	805	—	37,370
At December 31, 2016	28,228	2,876	1,464	857	11,593	45,018

During the year ended December 31, 2017, depreciation expense of approximately RMB675,000 (2016: RMB909,000), RMB1,627,000 (2016: RMB1,283,000) and RMB19,937,000 (2016: RMB12,339,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

16 INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Distribution channel relationship RMB'000	Customers relationship RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
Cost:									
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	—	—	112,491	—	—	—	12,630	62	125,183
Business combinations	4,664	—	—	—	—	—	—	—	4,664
At December 31, 2017	3,720,323	658,604	576,184	110,000	192,327	12,200	27,480	6,354	5,303,472
Accumulated amortization:									
At January 1, 2017	—	(66,430)	(259,579)	(29,334)	(58,446)	(11,031)	(10,027)	(2,538)	(437,385)
Amortization	—	(34,501)	(90,039)	(14,667)	(8,945)	(574)	(4,680)	(630)	(154,036)
At December 31, 2017	—	(100,931)	(349,618)	(44,001)	(67,391)	(11,605)	(14,707)	(3,168)	(591,421)
Impairment:									
At January 1, 2017	—	(5,700)	—	—	(49,000)	—	—	—	(54,700)
Additions	—	(85,159)	—	—	(71,095)	—	—	—	(156,254)
At December 31, 2017	—	(90,859)	—	—	(120,095)	—	—	—	(210,954)
Net carrying amount:									
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 December 31, 2017	3,720,323	466,814	226,566	65,999	4,841	595	12,773	3,186	4,501,097

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

16 INTANGIBLE ASSETS (CONTINUED)

	Goodwill RMB'000	Trademarks RMB'000	Copyrights of contents RMB'000	Writers' contracts RMB'000	Distribution channel relationship RMB'000	Customers relationship RMB'000	Software RMB'000	Domain names RMB'000	Total RMB'000
Cost:									
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 24)	(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
Accumulated amortization:									
At January 1, 2016	—	(34,430)	(147,179)	(14,667)	(29,573)	(10,457)	(7,249)	(1,367)	(244,922)
Amortization	—	(32,000)	(112,400)	(14,667)	(28,873)	(574)	(2,779)	(1,171)	(192,464)
Transfer to disposal group (Note 24)	—	—	—	—	—	—	1	—	1
At December 31, 2016	—	(66,430)	(259,579)	(29,334)	(58,446)	(11,031)	(10,027)	(2,538)	(437,385)
Impairment:									
At January 1, 2016	—	(5,700)	—	—	—	—	—	—	(5,700)
Additions	—	—	—	—	(49,000)	—	—	—	(49,000)
At December 31, 2016	—	(5,700)	—	—	(49,000)	—	—	—	(54,700)
Net carrying amount:									
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

16 INTANGIBLE ASSETS (CONTINUED)

During the year ended December 31, 2017, amortization expense of approximately RMB110,093,000 (2016: RMB128,071,000), RMB6,286,000 (2016: RMB26,218,000) and RMB37,657,000 (2016: RMB38,175,000) were charged to "cost of revenues", "selling and marketing expenses" and "general and administrative expenses", respectively.

During the year ended December 31, 2017, impairment losses of approximately RMB156,254,000 (2016: RMB49,000,000) were charged to "Other gains, net".

The 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" ("Chuangshi") in 2014.

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2017 and 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

The goodwill of the Group is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group, and the CGU to which the goodwill is allocated is the whole Group, being the only operating segment.

As of December 31, 2017, the recoverable amount of this Group was determined based on FVLCD, which was estimated by management with reference to the transaction price of the Company's listed shares in the Main Board of The Stock Exchange of Hong Kong Limited. Management considered the recoverable amount of the Group was higher than its carrying amount as of December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

16 INTANGIBLE ASSETS (CONTINUED)

As of December 31, 2016, the management did the value-in-use calculations by using 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 of December 31, 2016, key assumptions for goodwill used for value-in-use calculations include annual growth rates ranged from 10% to 55%, and gross margin ranged from 46% to 49%, respectively. As of December 31, 2016, the discount rate used of 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 as of December 31, 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

16 INTANGIBLE ASSETS (CONTINUED)

In percent	Change required for carrying amount to equal recoverable amount
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%

Impairment review on the trademark of the Group has been conducted by the management as of December 31, 2017 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of trademark is determined based on the higher amount of the FVLCD and value-in-use calculations. Given there is no active market for the Group's intangible assets of trademark, the recoverable amount of the trademark is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. As of December 31, 2017, key assumptions for trademark used for value-in-use calculations include annual revenue growth rates ranged from 3% to 20% and deemed royalty rate of 6%. As of December 31, 2017, the discount rate used of 21% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry.

Impairment review on the distribution channel relationship of the Group has been conducted by the management as of December 31, 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 the higher amount of the FVLCD and value-in-use calculations. Given there is no active market for the Group's intangible assets of distribution channel relationship, the recoverable amount of the trademark is determined based on the value-in-use calculations. The value-in-use calculations use cash flow projections based on business plan for the purposes of impairment reviews covering a ten-year period. As of December 31, 2017, in light of the ongoing legal proceeding with one of the Group's telecom operator customers (as disclosed in Note 38), the Group made a full impairment provision against the carrying amount of distribution channel relationship with that telecom operator customer. As of December 31, 2016, key assumptions for distribution channel relationship used for value-in-use calculations include annual growth rates ranged from 1% to 4% and operating margin ranged from 33% to 39%. As of December 31, 2016, the discount rate used of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Associates	**184,396**	72,934
Joint ventures	**157,918**	54,224
	342,314	127,158

(a) Investments in associates

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**72,934**	15,050
Additions	**107,742**	61,600
Impairment provision	**—**	(800)
Dividend from an associate	**(781)**	—
Disposals	**—**	(3,083)
Share of profit of the associates	**4,501**	167
At the end of the year	**184,396**	72,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

Set out below are the major associates of the Group as of December 31, 2017 and 2016, 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 (RMB'000)	Place of incorporation	Percentage of ownership interest attribution to the Group December 31, 2017	2016	Principal activities
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%	Intellectual property development
Shanghai Chuwan Information Technology Co., Ltd. ("Chuwan")	June 16, 2015	10,000	PRC	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

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 As of December 31,		Fanyu As of December 31,		Guangqi As of December 31,	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Current assets	**1,004**	7,669	**9,380**	28,139	**62,452**	62,500
Non-current assets	**3,333**	—	**29,954**	18,571	**4**	—
Current liabilities	**8**	5	**1,597**	2,829	**90**	—
Non-current liabilities	**—**	—	**—**	—	**—**	—
Revenues	**—**	—	**4,832**	29,964	**—**	—
(Loss)/profit for the year	**(3,335)**	(3,336)	**(6,144)**	22,841	**(134)**	—

	Yuandongli As of December 31,		Wawayu As of December 31,		Caiseqianbi As of December 31,	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Current assets	**2,873**	4,661	**35,669**	—	**29,637**	—
Non-current assets	**178,666**	163,820	**1,818**	—	**277**	—
Current liabilities	**—**	—	**17**	—	**4,260**	—
Non-current liabilities	**—**	—	**—**	—	**—**	—
Revenues	**—**	—	**2,464**	—	**3,509**	—
Profit/(loss) for the year	**17,171**	10,481	**(4,409)**	—	**(323)**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

Summarised financial information of the Group's major associates (Continued)

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.

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 of the Group.

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 statement of comprehensive income. 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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

Reconciliation of summarized financial information

Reconciliation of summarized financial information presented to the carrying amount of its interest in associates.

	Chuwan As of December 31,		Fanyu As of December 31,		Guangqi As of December 31,	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Net assets at the beginning of the year	**7,664**	11,000	**43,881**	11,040	**62,500**	—
Incorporation of an associate		—	**—**	10,000	**—**	62,500
(Loss)/profit for the year	**(3,335)**	(3,336)	**(6,144)**	22,841	**(134)**	—
Dividends	**—**	—	**—**	—	**—**	—
Net assets at the end of the year	**4,329**	7,664	**37,737**	43,881	**62,366**	62,500
Interest in associates	**30%**	30%	**20%**	20%	**40%**	40%
Goodwill	**6,700**	6,700	**—**	—	**—**	—
Elimination of downstream transactions	**(944)**	(1,887)	**—**	—	**(7,569)**	(7,569)
Carrying value	**7,055**	7,112	**7,547**	8,776	**17,377**	17,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Investments in associates (Continued)

Reconciliation of summarized financial information (Continued)

	Yuandongli As of December 31,		Wawayu As of December 31,		Caiseqianbi As of December 31,	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Net assets at the beginning of the year	**168,481**	—	**—**	—	**—**	—
Incorporation of an associate	**—**	158,000	**41,879**	—	**25,977**	—
Profit/(loss) for the year	**17,171**	10,481	**(4,409)**	—	**(323)**	—
Dividends	**(4,113)**	—	**—**	—	**—**	—
Net assets at the end of the year	**181,539**	168,481	**37,470**	—	**25,654**	—
Interest in associates	**19%**	19%	**24%**	—	**25%**	—
Goodwill	**—**	—	**37,449**	—	**39,954**	—
Elimination of downstream transactions	**—**	—	**—**	—	**—**	—
Carrying value	**34,470**	31,991	**46,442**	—	**46,419**	—

As of December 31, 2017, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was approximately RMB25,086,000 (2016: RMB7,624,000).

There are no contingent liabilities relating to the Group's interest in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments in joint ventures

	As of December 31, 2017 RMB'000	As of December 31, 2016 RMB'000
At the beginning of the year	**54,224**	25,443
Additions	**41,858**	—
Share of profit of the joint ventures	**61,836**	28,781
At the end of the year	**157,918**	54,224

Set out below is the major joint venture of the Group as of December 31, 2017 and 2016. The joint venture as listed below has share capital consisting solely of ordinary shares, which are 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 (RMB'000)	Place of incorporation	Percentage of ownership interest attribution to the Group December 31, 2017	Percentage of ownership interest attribution to the Group December 31, 2016	Principal activities
Beijing Jinjiang Networking Technology Co., Ltd.	March 13, 2006	5,550	PRC	50%	50%	Online reading service

Note:

The English name of the joint venture represents the best effort by the Company's management to translate its Chinese name, as the joint venture does not have an official English name.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments in joint ventures (Continued)

Summarized financial information of the Group's major joint venture

Set out below is the summarized financial information for Beijing Jinjiang Networking Technology Co., Ltd., which is accounted for using the equity method.

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Current assets	**302,783**	135,333
Non-current assets	**588**	683
Current liabilities	**69,255**	31,460
Non-current liabilities	**310**	1,003
Revenues	**396,500**	197,017
Profit for the year	**130,253**	57,561

Reconciliation of summarized financial information

Reconciliation of summarized financial information presented to the carrying amount of its interest in the joint venture.

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Net assets the beginning of the year	**103,553**	45,992
Profit for the year	**130,253**	57,561
Net assets at the end of the year	**233,806**	103,553
Interest in a joint venture	**50%**	50%
Goodwill	**2,447**	2,447
Carrying value	**119,350**	54,224

As of December 31, 2017, the carrying amount of interest in individually immaterial joint venture that is accounted for using the equity method was approximately RMB38,568,000.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Joint operations

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

18 INVESTMENTS IN REDEEMABLE SHARES OF ASSOCIATES

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**106,508**	74,008
Addition	**63,000**	—
Fair value gain	**97,492**	32,500
At the end of the year	**267,000**	106,508

In 2015, the Group made investment in some convertible redeemable preferred shares or redeemable ordinary shares with preference rights of a private company that engaged in provision of audio online publishing service, and the investment was initially acquired in exchange of licensing certain copyrights of the Group to the investee for a certain period of time. Both of the investment and copyrights licensed are initially measured at fair value.

During the year ended December 31, 2017, the RMB63,000,000 addition of investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in Foch and the details are set out in Note 24 of these consolidated financial statements.

These aforementioned investments held by the Group contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group 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, net" in the consolidated statement of comprehensive income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss:		
– Other investments - short-term investments (Note 26(a))	**—**	368,271
– Investments in redeemable shares of associates (Note 18)	**267,000**	106,508
– Derivative financial assets (Note 20)	**37,594**	7,500
Loans and receivables:		
– Trade and notes receivables (Note 25)	**759,983**	549,952
– Other investments - TV drama participation investment (principal and return guaranteed) (Note 26(b))	**25,128**	—
– Deposits and other assets (current and non-current portions) (Note 22)	**79,071**	576,317
– Term deposits (current and non-current portions) (Note 27)	**1,104,280**	—
– Cash and cash equivalents (Note 27)	**7,502,430**	404,915
	9,775,486	2,013,463

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Consideration payable related to the acquisition of Cloudary's non-controlling interests (current portions) (Note 32)	**500**	500
Financial liabilities at amortized cost:		
– Trade payables (Note 31)	**656,953**	419,697
– Other payables and accruals (excluding prepayments received from customers, staff costs and welfare accruals, special funds payable and other tax payable) (Note 32)	**329,042**	242,920
– Borrowings (current and non-current portion) (Note 30)	**475,000**	541,622
– Put option liability (Note 29)	**—**	73,455
	1,461,495	1,278,194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

20 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, net" of the consolidated statement of comprehensive income.

The movement of the derivative financial assets is set out as below:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**7,500**	8,400
Recognition of derivative financial assets	**—**	300
Fair value change of derivative financial assets	**30,094**	(1,200)
At the end of the year	**37,594**	7,500

Note:

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

As of December 31, 2016, the RMB7,500,000 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 of December 31, 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 associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

21 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:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered after more than 12 months	**10,129**	9,011
– to be recovered within 12 months	**10,197**	19,418
	20,326	28,429
Deferred tax liabilities:		
– to be recovered after more than 12 months	**(179,950)**	(203,338)
– to be recovered within 12 months	**(13,957)**	(17,655)
	(193,907)	(220,993)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

21 DEFERRED INCOME TAXES (CONTINUED)

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 inventory obsolescence RMB'000	Tax losses RMB'000	Advertising expenses RMB'000	Provision for doubtful receivables and other temporary differences RMB'000	Intangible assets acquired in business combination RMB'000	Total RMB'000
As of January 1, 2016	10,543	—	417	(6,850)	(223,920)	(219,810)
Recognized in the profit or loss	407	—	(417)	(5,880)	33,136	27,246
As of December 31, 2016	10,950	—	—	(12,730)	(190,784)	(192,564)
Recognized in the profit or loss	(7,764)	559	—	(28,735)	54,923	18,983
As of December 31, 2017	**3,186**	**559**	**—**	**(41,465)**	**(135,861)**	**(173,581)**

Deferred income tax assets are recognized for tax losses carrying forwards and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As of December 31, 2017, the Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB159,692,000 (2016: RMB125,644,000). These tax losses will expire from 2018 to 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

22 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Non-current:		
Deposits and prepayments	**20,655**	17,140
Deferred compensation cost (Note a)	**2,213**	3,200
	22,868	20,340
Current:		
Receivable related to RSUs withholding IIT	**175,570**	—
Prepayments to vendors and online writers	**52,682**	54,259
Interests receivable	**28,732**	1,953
Rental and other deposits	**13,891**	10,639
Royalty advances (Note b)	**8,656**	7,762
Staff advances	**3,165**	1,455
Amounts due from related parties (Note c)	**700**	534,875
Deferred license fees and related costs	**488**	731
Others	**11,928**	10,255
	295,812	621,929

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 amortized 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) As of December 31, 2016, the balance 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, and 2) loan and interest receivables due from a related party Tencent Asset Management Limited.

According to the wealth management agreement with Oriental Power Holdings Limited, the interest rate of these deposits was 3.27% per annum. As of December 31, 2016, the principals were amounting to RMB300,000,000, and the interest receivables were amounting to approximately RMB14,715,000. 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 of December 31, 2016, the loan and interest receivables were amounting to approximately RMB213,187,000 and RMB5,276,000, respectively. The loan was extended one year in February 2017 and was early collected in September 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

22 PREPAYMENTS, DEPOSITS AND OTHER ASSETS (CONTINUED)

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 of December 31, 2017 and 2016. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

23 INVENTORIES

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Raw materials	**15,757**	10,013
Work in progress	**27,861**	30,873
Inventories in warehouse	**71,316**	64,094
Inventories held with distributors on consignment	**93,702**	90,184
TV drama production costs under joint operations	**59,585**	—
Others	**33,153**	13,833
	301,374	208,997
Less: provision for inventory obsolescence	**(78,888)**	(71,077)
	222,486	137,920

During the year ended December 31, 2017, the cost of physical inventories recognized as expense and included in "cost of revenues" amounted to approximately RMB144,804,000 (2016: RMB151,003,000); the cost of animation products (included in "Inventories - others") recognized as expense and included in "cost of revenues" amounted to approximately RMB47,960,000 (2016: RMB28,149,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

24 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 shares of Foch as financial assets at fair value through profit or loss, with the changes in the fair value recorded in "Other gains, net" in the consolidated statement of comprehensive income.

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 recognized as "Investments in redeemable shares of associates" (Note 18) in the consolidated statement of financial position. Accordingly, a disposal gain of approximately RMB58,776,000 was recognized for the year ended December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

24 DISPOSAL OF SUBSIDIARIES (CONTINUED)

1) Disposal group held for sale – Foch (Continued)

(a) Assets of disposal group classified as held for sale

	As of December 31, 2016 RMB'000
Property, plant and equipment	239
Goodwill	9,622
Other intangible assets	80
Inventories	7,719
Other current assets	14,565
Total	32,225

(b) Liabilities of disposal group classified as held for sale

	As of December 31, 2016 RMB'000
Trade and other payable	2,123
Other current liabilities	1,307
Total	3,430

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 June 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 year ended December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

25 TRADE AND NOTES RECEIVABLES

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**780,097**	557,122
Notes receivable	**370**	1,129
	780,467	558,251
Less: allowance for impairment of trade receivables	**(20,484)**	(8,299)
	759,983	549,952

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
At the beginning of the year	**8,299**	8,633
Provision for doubtful receivables	**27,150**	2,285
Receivables written off during the year as uncollectable	**(13,834)**	(747)
Collection of amounts previously in dispute	**(1,131)**	(1,872)
At the end of the year	**20,484**	8,299

As of December 31, 2017 and 2016, 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 of December 31, 2017 and 2016, except for the impaired receivables, the majority of the remaining balances of receivables are due from certain content distribution partners (including Tencent's platforms) in Mainland China who usually settle the amounts due by them within a period of 30 to 120 days. As of December 31, 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 of December 31, 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

25 TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Trade and notes receivables		
– Up to 3 months	**538,699**	505,943
– 3 to 6 months	**114,785**	13,511
– 6 months to 1 year	**85,809**	22,574
– 1 to 2 years	**17,196**	4,690
– Over 2 years	**3,494**	3,234
	759,983	549,952

26 OTHER INVESTMENTS

(a) Short-term investments

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Short-term investments	**—**	368,271

As of December 31, 2016, the short-term investments represented investment in wealth management products issued by banks in the PRC with expected investment income rates at 1.65%~4.27%. 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 2 of the fair value hierarchy. Changes in fair value (realized and unrealized) of these financial assets had been recognized are recognized in "Other gains, net" in the consolidated statement of comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

26 OTHER INVESTMENTS (CONTINUED)

(b) Investments in TV drama participation

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
TV drama participation investment (principal and return guaranteed)	**25,128**	—

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

27 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Bank balances and term deposits	**8,606,710**	404,915
Less: Term deposits with initial term of over three months and less than one year	**653,420**	—
Term deposits with initial term of over one year	**450,860**	—
Cash and cash equivalents	**7,502,430**	404,915
Maximum exposure to credit risk	**8,606,710**	404,915

Bank balances and term deposits are denominated in the following currencies:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
USD	**4,850,034**	25,190
RMB	**2,875,733**	379,725
HKD	**880,943**	—
	8,606,710	404,915

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 of December 31, 2017.

The effective interest rate of the term deposits with initial terms of over three months of the Group for the year ended December 31, 2017 was 2.14% (2016: 2.60%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

28 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 with nominal amount of USD55,000,000 is carrying interest rate at 5% per annum payable annually, and matured on June 4, 2016. 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 USD74,985,000 and matured on June 6, 2016 ("New 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 statement of comprehensive income upon the redemption.

29 PUT OPTION LIABILITY

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Present value of liability in relation to a put option granted to non-controlling shareholder of a subsidiary	**—**	73,455

According to the equity transfer agreement ("Equity Transfer Agreement") in respect of the Group's non-wholly owned subsidiary, Shenzhen Lazy Online Technology Co., Ltd. ("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 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 statement of comprehensive income was amounting to approximately RMB2,905,000 for the year ended December 31, 2017 (2016: RMB4,182,000). As the put option has not been exercised and expired in August 2017, the put option liability of approximately RMB76,360,000 was reclassified to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

30 BORROWINGS

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowings (Note a)	**475,000**	—
Current		
Other borrowings (Note b)	**—**	541,622
Total borrowings	**475,000**	541,622

Notes:

(a) In March 2017, one of the Group's subsidiaries Shanghai Yuewen entered into a two-year loan facility agreement with Bank of Communications, Shanghai Branch, where a loan facility up to RMB500,000,000 was made available to Shanghai Yuewen. As of December 31, 2017, the long-term borrowing balance of RMB475,000,000 consisted of two borrowings of RMB403,326,880 and RMB71,673,120, respectively, borrowed from Bank of Communications, Shanghai Branch under the loan facility agreement. The loans bore a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum and will be repayable in March, 2019. The loan facility was guaranteed by Bank of Communications, Tokyo Branch.

(b) As of 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 of 4.35% per annum. The borrowing was subsequently extended one year in March 2017 and was early repaid in September 2017.

As of December 31, 2016, the Group's unsecured short-term borrowing balance of USD6,000,000 (approximately equal to RMB41,622,000) was borrowed from Oriental Power Holdings Limited with an interest rate of 4.0% per annum. The borrowing was subsequently extended two months in June 2017 and was repaid in August 2017.

As of 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 of 4.8% per annum. The borrowing was subsequently extended one year in June 2016 and was repaid in June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

30 BORROWINGS (CONTINUED)

As of December 31, 2017 and 2016, the carrying amount of the Group's borrowings approximated to their fair value.

The maturity of borrowings is as follows:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**—**	541,622
Between 1 and 2 years	**475,000**	—
	475,000	541,622

31 TRADE PAYABLES

Ageing analysis of the trade payables based on recognition date at the end of each reporting period are as follows:

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
– Up to 3 months	**506,021**	346,297
– 3 to 6 months	**65,314**	12,606
– 6 months to 1 year	**53,920**	26,168
– 1 to 2 years	**9,276**	8,108
– Over 2 years	**22,422**	26,518
	656,953	419,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

32 OTHER PAYABLES AND ACCRUALS

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Withholding IIT payable related to RSUs	**175,570**	—
Advertising and marketing expense accruals	**138,627**	130,599
Staff costs and welfare accruals	**116,842**	82,968
Prepayments received from customers	**61,921**	16,165
Amount received for capital injection to a non-wholly owned subsidiary of the Group (Note a)	**50,050**	—
Payables related to investments	**42,200**	3,000
Professional service fee payable	**37,257**	12,094
Other tax payable	**30,903**	30,041
Payables related to transfer of intangible asset	**9,083**	9,083
Special funds payable	**4,868**	4,624
Outsourcing game development fee payable	**3,900**	1,278
Logistic fee payable	**2,000**	1,940
Sales rebate accruals	**953**	1,747
Interests payable	**620**	30,268
Consideration payable related to the acquisition of Cloudary's non-controlling interests	**500**	500
Non-trade payable due to a related party	**—**	35,000
Contingent liability	**—**	1,969
Others	**44,352**	15,731
	719,646	377,007

Note:

(a) As of December 31, 2017, the balance represented the amounts received for the capital injection into the Group's subsidiary Lazy Online by two new third party investors. Up to the date of issue of these consolidated financial statements, this capital injection has not been consummated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

33 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 of December 31, 2017 and 2016, and 2) the balance of deferred copyrights licensing income to be amortized over remaining sub-licensing period, and the portion to be recognized over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position.

34 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR RSU SCHEME

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
As of January 1, 2016	666,833,279	409	4,658,606	—	4,659,015
Issuance of ordinary shares (Note a)	33,010,341	22	652,423	—	652,445
As of December 31, 2016	699,843,620	431	5,311,029	—	5,311,460
Issuance of ordinary shares (Note b)	**166,164,528**	**111**	**7,038,676**	**—**	**7,038,787**
Share issuance costs (Note c)	**—**	**—**	**(206,237)**	**—**	**(206,237)**
Issuance of shares held for RSU scheme (Note 36(d))	**40,409,091**	**27**	**—**	**(27)**	**—**
Transfer of vested RSUs	**—**	**—**	**(4)**	**4**	**—**
As of December 31, 2017	**906,417,239**	**569**	**12,143,464**	**(23)**	**12,144,010**

Notes:

(a) 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 USD3.0294 per share for an aggregated consideration of approximately USD100,000,000 (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.

(b) 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 USD3.31 per share for an aggregated consideration of approximately USD100,000,000 (equivalent to approximately RMB687,765,000). 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.

In November 2017, upon its Listing on the Main Board of the Stock Exchange of Hong Kong Limited, the Company issued 135,962,710 new ordinary shares at par value of USD0.0001 per share for cash consideration of HKD55.00 each, and raised gross proceeds of approximately HKD7,477,949,000 (equivalent to approximately RMB6,351,022,000). The respective share capital amount was approximately RMB90,122 and share premium arising from the issuance was approximately RMB6,350,932,000.

(c) Share issuance costs mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs associated with the Listing. Incremental costs that are directly attributable to the issue of the new shares amounting to approximately RMB206,237,000 was treated as a deduction against the share premium arising from the issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

35 OTHER RESERVES

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option on non-controlling interests RMB'000	Shares-based compensation reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Total RMB'000
As of January 1, 2017	**31,024**	**17,063**	**(65,396)**	**211,402**	**24,066**	**(7,281)**	**210,878**
Currency translation differences	**—**	**(150,130)**	**—**	**—**	**—**	**—**	**(150,130)**
Share-based compensation expenses (Note 36)	**487**	**—**	**—**	**136,959**	**—**	**—**	**137,446**
Expiry of put option liability (Note 29)	**—**	**—**	**76,360**	**—**	**—**	**—**	**76,360**
Profit appropriations to statutory reserves (Note a)	**—**	**—**	**—**	**—**	**32,062**	**—**	**32,062**
Others	**2,616**	**—**	**—**	**—**	**—**	**—**	**2,616**
As of December 31, 2017	**34,127**	**(133,067)**	**10,964**	**348,361**	**56,128**	**(7,281)**	**309,232**
As of January 1, 2016	26,781	(10,166)	(65,396)	133,964	9,380	—	94,563
Currency translation differences	—	27,229	—	—	—	—	27,229
Share-based compensation expenses (Note 36)	585	—	—	77,438	—	—	78,023
Acquisition of non-controlling interests (Note b)	—	—	—	—	—	(7,281)	(7,281)
Profit appropriations to statutory reserves (Note a)	—	—	—	—	14,686	—	14,686
Others	3,658	—	—	—	—	—	3,658
As of December 31, 2016	31,024	17,063	(65,396)	211,402	24,066	(7,281)	210,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

35 OTHER RESERVES (CONTINUED)

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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

36 SHARE-BASED PAYMENTS

(a) Share-based compensation plans of Tencent

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

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

	Number of RSUs
As of January 1, 2017	**39,500**
Vested	**(29,500)**
As of December 31, 2017	**10,000**
As of January 1, 2016	88,500
Vested	(49,000)
As of December 31, 2016	39,500

The fair value of the awarded shares was calculated based on the market price of the Tencent's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

(b) Share-based compensation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

36 SHARE-BASED PAYMENTS (CONTINUED)

(b) Share-based compensation plan of the Group (Continued)

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

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

On January 17, 2017, the shareholders of the Company approved additional 15,409,091 new ordinary share to be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under 2014 Equity Incentive Plan shall be amounted to 40,409,091 shares.

On January 17, 2017 and September 4, 2017, 5,807,500 and 7,380,000 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest and the completion of an IPO of the Company.

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2017	**11,131,500**
Granted	**13,187,500**
Forfeited	**(305,000)**
Vested	**(3,710,500)**
Outstanding balance as of December 31, 2017	**20,303,500**
As of January 1, 2016	14,910,000
Forfeited	(85,000)
Vested	(3,693,500)
Outstanding balance as of December 31, 2016	11,131,500

The fair value of each RSUs at the grant dates, namely January 17, 2017 and September 4, 2017, were determined by reference to the estimated fair value of the ordinary share of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

36 SHARE-BASED PAYMENTS (CONTINUED)

(c) Expected Retention Rate

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the share options (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to the consolidated statement of comprehensive income. As of December 31, 2017, the Expected Retention Rate was assessed to be 100%, respectively.

(d) Shares held for RSU scheme

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

37 COMMITMENTS

The Group leases servers and office buildings under non-cancellable operating lease agreements. 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 of December 31,	
	2017	2016
	RMB'000	RMB'000
No later than 1 year	**44,395**	45,399
Later than 1 year and no later than 5 years	**108,261**	58,434
Later than 5 years	**5,530**	—
	158,186	103,833

38 CONTINGENCIES

On August 7, 2017, Migu Digital Media Co., Ltd. ("Migu") filed a lawsuit and alleged that the Group 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 of December 31, 2017 in respect of this case.

Apart from the aforementioned contingency in respect of Migu's legal claim, the Group did not have any other material contingent liabilities as of December 31, 2017 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

39 CASH FLOW INFORMATION

(a) Cash generated from operating activities

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Profit for the year	**562,692**	30,360
Adjustments for:		
Income tax expense	**83,038**	7,958
Compensation charges for post-combination services	**1,589**	3,533
Share-based compensation expenses	**137,446**	78,023
Contribution from Tencent	**2,616**	3,658
Depreciation of property, plant and equipment	**22,239**	14,531
Amortization of intangible assets	**154,036**	192,464
Loss on disposals of property, plant and equipment	**327**	531
Provision for doubtful receivables	**26,019**	1,264
Provision for inventory obsolescence	**39,619**	42,046
Impairment loss of available-for-sale financial assets	**—**	483
Impairment provision for intangible assets	**156,254**	49,000
Gain on redemption of convertible bonds	**—**	(92,207)
Share of profit of investments accounted for using equity method	**(66,337)**	(28,148)
(Gain)/loss on disposals of subsidiaries	**(60,888)**	746
Gain on disposal of an associate	**—**	(500)
Accretion charges of put option liability	**2,905**	4,182
Fair value change of derivative financial assets	**(30,094)**	1,200
Recognition of derivative financial assets	**—**	(300)
Fair value gain of investments in redeemable shares of associates	**(97,492)**	(32,500)
Interest income on bank deposits	**(48,212)**	(3,939)
Fair value gain on financial assets at fair value through profit or loss (Note 26)	**(5,002)**	(11,594)
Interest income on investments and loans receivable	**(9,183)**	(14,861)
Interest expense	**29,843**	22,910
Guarantee expense	**2,422**	—
Foreign exchange (gain)/loss, net	**(24,640)**	19,622
Interest income on IPO subscription deposits	**(55,575)**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

39 CASH FLOW INFORMATION (CONTINUED)

(a) Cash generated from operating activities (Continued)

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Changes in operating assets and liabilities:		
Trade and notes receivables	**(240,722)**	(372,056)
Inventories	**(123,481)**	(39,793)
Prepayments, deposits and other assets	**(192,059)**	2,136
Investments in TV drama participation	**(25,128)**	—
Trade payables	**237,173**	198,953
Deferred revenue	**124,107**	83,904
Other payables and accruals	**360,099**	64,492
Net cash provided by operating activities	**963,611**	226,098

(b) Non-cash investing and financing activities

During the years ended December 31, 2017 and 2016, there are no material non-cash investing and financing transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

39 CASH FLOW INFORMATION (CONTINUED)

(c) Net debt reconciliation

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (non-current) RMB'000	Borrowings (current) RMB'000	Convertible bonds RMB'000	Interest payable RMB'000	Consideration payable related to the acquisition of Cloudary's non-controlling interests (current) RMB'000	Total RMB'000
As of January 1, 2017	**—**	**541,622**	**—**	**30,268**	**500**	**572,390**
Foreign exchange adjustments	**—**	**(1,576)**	**—**	**(26)**	**—**	**(1,602)**
Cash flows	**475,000**	**(540,046)**	**—**	**(59,465)**	**—**	**(124,511)**
Other non-cash movements	**—**	**—**	**—**	**29,843**	**—**	**29,843**
As of December 31, 2017	**475,000**	**—**	**—**	**620**	**500**	**476,120**
As of January 1, 2016	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)
As of December 31, 2016	—	541,622	—	30,268	500	572,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

40 SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as of December 31, 2017 are set out below:

Company name	Place of incorporation	Date of incorporation	Registered capital	Percentage of attributable equity interest	Principal activities
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%	Online reading business and intellectual property operations
Shanghai Xuanting Entertainment Information Technology Co., Ltd. ("上海玄霆娛樂信息科技有限公司")	PRC	August 26, 2004	RMB108,000,000	100.00%	Online reading business
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	89.55%	Physical book business
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%	Online reading business
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%	Physical book business
Shengyun Information Technology (Tianjin) Co., Ltd. ("盛雲信息技術(天津)有限公司")	PRC	June 13, 2013	USD30,000,000	100.00%	Intellectual property management
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%	Online reading business
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%	Online radio service
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%	Online reading business
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%	Online reading business and intellectual property operations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

41 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	Fellow subsidiary
Shenzhen Tencent Computer Systems Company Limited	Fellow subsidiary
Shenzhen Shiji Kaixuan Technology Company Limited	Fellow subsidiary
Tencent Technology (Shenzhen) Company Limited	Fellow subsidiary
Tencent Cloud Computing (Beijing) Company Limited	Fellow subsidiary
Beijing Tencent Culture Media Company Limited	Fellow subsidiary
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Tencent Asset Management Limited	Fellow subsidiary
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Shanghai Tencent Film Culture Co., Ltd.	Fellow subsidiary
Beijing BIZCOM Technology Company Limited	Fellow subsidiary
Qinghai Lake Investment Limited	Fellow subsidiary
Shenzhen Tencent Video Culture Co., Ltd.	Fellow subsidiary
Beijing Jinjiang Networking Technology Co., Ltd.	Joint venture of the Group
Tianjin Yuexin Culture and Media Co., Ltd.	Joint venture of the Group
Cangqiong Interactive Entertainment (Tianjin) Culture Co., Ltd.	Joint venture of the Group
Tianjin Wenmeng Interactive Entertainment Co., Ltd.	Joint venture of the Group
Shanghai Chuwan Information 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
Ningbo Yuewen Yuandongli Culture Industry Investment LLP	Associate of the Group
Tianjin Tengyue Tianxia Culture Technology Co., Ltd.	Associate of the Group
Hangzhou Wawayu Animation Design Co., Ltd.	Associate of the Group
Shanghai Foch Film Culture Investment Co., Ltd.	Associate of the Group (Note 24 and Note 18)
JD.com, Inc.	Associate of the ultimate holding company
Sogou, Inc.	Associate of the ultimate holding company
Guangzhou Tianwen Kadokawa Animation and Comics Co., Ltd.	Associate of the ultimate holding company
Khorgas Linmon Pictures Media Co., Ltd.	Associate of the ultimate holding company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

41 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

(a) Copyrights licensing, provision of advertising and management services, sales of physical books and other sales

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Fellow subsidiaries	**170,631**	79,233
Associates of the ultimate holding company	**72,268**	34,225
Associates of the Group	**3,788**	57,136
Joint venture of the Group	**3,774**	—
	250,461	170,594

(b) Receipts of services, purchase of animation works and other purchase

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Fellow subsidiaries	**351,275**	283,969
Associates of the ultimate holding company	**11,242**	—
Associates of the Group	**22,963**	49
Joint venture of the Group	**3,917**	3,187
	389,397	287,205

(c) Interest income

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Fellow subsidiaries	**9,183**	14,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Interest expense

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Fellow subsidiaries	**14,277**	22,642

The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

(e) Share transfer of Tianjin Ruinuo

As disclosed in Note 24, the Group sold its 100% equity interest of Tianjin Ruinuo to a fellow subsidiary of the Group in June 2017. A disposal gain of approximately RMB2,112,000 was recognized accordingly for the year ended December 31, 2017.

(f) Balances with related parties

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Trade receivables (Note)		
Fellow subsidiaries	**434,562**	388,886
Associates of the ultimate holding company	**25,326**	7,245
Joint venture of the Group	**539**	539
	460,427	396,670
Prepayments, deposits and other receivables		
Fellow subsidiaries	**434**	534,875
Associates of the ultimate holding company	**266**	—
	700	534,875

Note: Trade receivables from fellow subsidiaries are mainly arising from the collection of payments from the Group's customers on behalf of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Balances with related parties (Continued)

Apart from the loan and interest receivables due from Oriental Power Holdings Limited and Tencent Asset Management Limited as discussed in Note 22, other receivables due from related parties are unsecured, interest-free and repayable on demand. No provisions are made against receivables from related parties.

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	**83,153**	66,415
Associates of the ultimate holding company	**1**	—
Associates of the Group	**736**	6
Joint venture of the Group	**1,470**	898
	85,360	67,319

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Other payables and accruals		
Fellow subsidiaries	**97,521**	138,074
Associates of the Group	**12,300**	4,620
Joint ventures of the Group	**32,200**	—
	142,021	142,694

The payables due to related parties are unsecured, interest-free and are repayable on demand.

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
Borrowings		
Fellow subsidiaries (Note 30)	**—**	541,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

41 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Key management personnel compensations

	Year ended December 31,	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**15,940**	9,944
Other social security costs, housing benefits and other employee benefits	**284**	275
Pension costs — defined contribution plans	**195**	184
Share-based compensation expenses	**14,450**	23,962
	30,869	34,365

42 SUBSEQUENT EVENTS

There were no material subsequent events during the period from December 31, 2017 to the approval date of these consolidated financial statements by the Board of Directors on March 19, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

43 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As of December 31,	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**5,517,340**	5,716,547
Current assets		
Prepayments, deposits and other assets	**1,355,685**	804,589
Term deposits	**653,420**	—
Cash and cash equivalents	**5,674,359**	9,371
	7,683,464	813,960
Total assets	**13,200,804**	6,530,507
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**569**	431
Shares held for RSU scheme	**(23)**	—
Share premium	**12,386,853**	5,554,418
Other reserves	**556,462**	922,430
Retained earnings	**43,732**	10,360
Total equity	**12,987,593**	6,487,639
LIABILITIES		
Current liabilities		
Other payables and accruals	**213,211**	1,246
Borrowings	**—**	41,622
Total liabilities	**213,211**	42,868
Total equity and liabilities	**13,200,804**	6,530,507

The statement of financial position of the Company was approved by the Board of Directors on March 19, 2018 and was signed on its behalf.

Wu Wenhui	**Liang Xiaodong**
Director	Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

43 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Other reserves RMB'000	Retained earnings RMB'000
As of January 1, 2017	**922,430**	**10,360**
Comprehensive income		
Profit for the year	**—**	**33,372**
Other comprehensive income		
– Currency translation differences	**(502,928)**	**—**
Total comprehensive income/(loss) for the year	**(502,928)**	**33,372**
Transaction with owners		
Share-based compensation expenses (Note 36)	**136,960**	**—**
Total transactions with owners recognized directly in equity for the year	**136,960**	**—**
As of December 31, 2017	**556,462**	**43,732**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2017

43 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company (Continued)

	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000
As of January 1, 2016	434,765	(85,866)
Comprehensive income		
Profit for the year	—	96,226
Other comprehensive income		
– Currency translation differences	410,315	—
Total comprehensive income for the year	410,315	96,226
Transaction with owners		
Share-based compensation expenses (Note 36)	77,350	—
Total transactions with owners recognized directly in equity for the year	77,350	—
As of December 31, 2016	922,430	10,360

DEFINITIONS

"Administrator"	:	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;
"AGM"	:	the forthcoming annual general meeting of the Company to be held on May 18, 2018;
"Articles of Association"	:	the amended and restated articles of association of the Company, conditionally adopted on October 18, 2017 with effect from the Listing Date, and as amended from time to time;
"Audit Committee"	:	the audit committee of the Company;
"Auditor"	:	the external auditor of the Company;
"Award(s)"	:	the restricted stock unit(s) granted under the RSU Plan;
"Award Agreement(s)"	:	the agreements evidencing the grant of the Awards;
"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;
"Board"	:	the board of Directors of the Company;
"Board Committees"	:	the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Investment Committee of the Board of the Company;
"Catalog"	:	the Guidance Catalog of Industries for Foreign Investment;
"CG Code"	:	the Corporate Governance Code and Corporate Governance Report;
"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;
"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;

DEFINITIONS

"Cloud Services and Technical Services Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (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) on October 21, 2017, pursuant to which the Retained Tencent Group agreed to provide cloud services and other technical services to the Company for service fees;
"Co-Chief Executive Officer(s)"	:	the co-chief executive officer(s) of the Company;
"Company", "our Company", "the Company" or "China Literature"	:	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange on the Listing Date under the stock code 772;
"Consolidated Affiliated Entities"	:	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries;
"Continuing Connected Transactions"	:	the continuing connected transactions of the Group during the year ended 31 December 2017;
"Contractual Arrangements"	:	the series of contractual arrangements entered into by, among others, our Company, the WFOEs and the PRC Holdcos;
"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;
"Director(s)"	:	the director(s) of our Company;
"Equity Pledge Agreements"	:	the equity pledge agreements entered into between the WFOEs, the Registered Shareholders and the PRC Holdcos on June 27, 2017, where the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdcos that they owned, 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;
"Exclusive Business Cooperation Agreements"	:	the exclusive business cooperation agreements that each of Shanghai Hongwen and Shanghai Yuewen entered into with each of Shanghai Yueting and Shanghai Yuechao on June 26, 2017, pursuant to which, in exchange for a monthly service fee, the PRC Holdcos agreed to engage the WFOEs as each of their exclusive provider of technical support, consultation and other services;

DEFINITIONS

"Exclusive Option Agreements"	:	the exclusive option agreements entered into among Shanghai Yueting, Shanghai Yuechao, Shanghai Hongwen, Shanghai Yuewen and the Registered Shareholders on June 26, 2017, pursuant to which, 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);
"Group", "our Group", "the Group", "we", "us", or "our"	:	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"HKD"	:	the lawful currency of Hong Kong;
"IEG"	:	interactive entertainment group;
"IP"	:	intellectual property;
"IP Cooperation CCTs"	:	the cooperation between Shanghai Yueting and Tencent Computer under the IP Cooperation Framework Agreement;
"IP Cooperation Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (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 on October 21, 2017, relating to the cooperation in the content adaptation of our literary works and/or distribution of products adapted from these literary works;
"IPO"	:	initial public offering;
"IPO Proceeds"	:	the total net proceeds of HKD7,235 million from the Company's global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses;
"Listing Date"	:	November 8, 2017, the date on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange;
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;

DEFINITIONS

"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;
"Main Board"	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least once during the calendar month in question;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Intergroup Agreements" and each a "New Intergroup Agreement"	:	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 into, among others, by any of our PRC Holdcos and any member of our Group;
"Ningbo Meishan Yuebao"	:	Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保税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;
"Online Platform Cooperation CCTs"	:	the cooperation entered into between Shanghai Yueting (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) under the Online Platform Cooperation Framework Agreement;
"Online Platform Cooperation Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (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) on October 21, 2017, relating to the cooperation in the distribution of our literary works through our self-operated channels on Tencent platforms;

DEFINITIONS

"Payment Services Cooperation Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (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) on October 21, 2017, 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;
"Powers of Attorney"	:	the powers of attorney executed by the Registered Shareholders on June 26, 2017, pursuant to which the Registered Shareholders irrevocably appointed the WFOEs and their designated persons 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;
the "PRC" or "China"	:	the People's Republic of China;
"PRC Holdcos"	:	Shanghai Hongwen and Shanghai Yuewen;
"Promotion Cooperation Framework Agreement"	:	the framework agreement established between Shanghai Yueting (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) on October 21, 2017, 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);
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"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 indirectly wholly-owned subsidiary;

DEFINITIONS

"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;
"Relevant Period"	:	the period from the Listing Date to December 31, 2017;
"Reporting Period"	:	the year ended December 31, 2017;
"Restricted Period"	:	the restricted period of RSUs which commences 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;
"Retained Tencent Group"	:	Tencent and its subsidiaries, excluding our Group;
"Retained Tencent Group Platforms"	:	the self-operated channels on Tencent platforms that distribute our literary works through under the Online Platform Cooperation CCTs;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);
"RSU Plan"	:	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014;
"SFO"	:	the Securities and Futures Ordinance;
"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;
"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 Yuehuo"	:	Shanghai Yuehuo Information Technology Co., Ltd. (上海閱活信息科技有限公司), a company established in the PRC on November 11, 2016 and one of our Consolidated Affiliated Entities;
"Shanghai Yueting"	:	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術 (上海) 有限公司, previously known as Shengting Information Technology (Shanghai) Co., Ltd.), a company established in the PRC on May 27, 2008, and our indirectly wholly-owned subsidiary;
"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 indirectly wholly-owned subsidiary;

DEFINITIONS

"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;
"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;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Shareholders"	:	holder(s) of our Share(s);
"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 indirectly 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;
"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;
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Tencent"	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700);
"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;

DEFINITIONS

"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;
"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;
"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 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;
"USD"	:	the lawful currency of the United States;
"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"	:	Shanghai Yueting and Shanghai Yuechao;
"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.

Notes:

For ease of reference, the names of the PRC established companies or entities have been included in this annual report in both the Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.

阅文集团
CHINA LITERATURE