阅文集团
CHINA LITERATURE

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

2018
ANNUAL REPORT

阅文集团
CHINA LITERATURE

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 Calder (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

Room 1503-04
ICBC Tower
3 Garden Road, Central
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

FINANCIAL SUMMARY AND OPERATIONAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenues	**5,038,250**	4,095,066	2,556,866	1,606,640	466,208
Gross profit	**2,557,979**	2,075,440	1,054,847	580,534	202,243
Operating profit/(loss)	**1,114,951**	614,563	33,323	(307,760)	3,979
Profit/(loss) before income tax	**1,077,801**	645,730	38,318	(317,142)	4,116
Profit/(loss) for the year	**912,398**	562,692	30,360	(354,159)	(21,130)
Profit/(loss) attributable to equity holders of the Company	**910,636**	556,129	36,683	(347,584)	(21,130)
Total comprehensive income/(loss) for the year	**1,342,293**	412,562	57,589	(363,730)	(21,725)
Total comprehensive income/(loss) attributable to equity holders of the Company	**1,340,538**	405,999	63,912	(357,155)	(21,725)
Non-GAAP profit/(loss) attributable to equity holders of the Company	**900,490**	721,817	85,255	(91,959)	(7,264)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets					
Non-current assets	**13,556,968**	5,703,237	5,016,493	5,025,715	5,022,976
Current assets	**14,277,638**	9,434,131	2,115,212	1,355,375	1,360,433
Total assets	**27,834,606**	15,137,368	7,131,705	6,381,090	6,383,409
Equity and liabilities					
Equity attributable to equity holders of the Company	**18,403,478**	12,621,196	5,166,225	4,375,468	4,599,151
Non-controlling interests	**11,567**	41,514	42,057	82,491	68,608
Total equity	**18,415,045**	12,662,710	5,208,282	4,457,959	4,667,759
Non-current liabilities	**2,823,250**	710,492	264,957	362,831	327,829
Current liabilities	**6,596,311**	1,764,166	1,658,466	1,560,300	1,387,821
Total liabilities	**9,419,561**	2,474,658	1,923,423	1,923,131	1,715,650
Total equity and liabilities	**27,834,606**	15,137,368	7,131,705	6,381,090	6,383,409

FINANCIAL SUMMARY AND OPERATIONAL HIGHLIGHTS

Year ended December 31, 2018

Revenues
5,038.3
RMB in Million

Profit attributable to equity holders of the Company
910.6
RMB in Million

Average MAUs
213.5
Million

Gross profit
2,558.0
RMB in Million

Non-GAAP profit attributable to equity holders of the Company
900.5
RMB in Million

Average MPUs
10.8
Million

CHAIRMAN'S STATEMENT

I am pleased to present our annual report for the year ended December 31, 2018 to our shareholders.

Results Highlights

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

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

Business Review

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

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

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

CHAIRMAN'S STATEMENT

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

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

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

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

CHAIRMAN'S STATEMENT

Outlook

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

APPRECIATION

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

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

Hong Kong, March 18, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Notes:

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Notes:

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year ended December 31,			
	2018		2017	
	RMB' 000	**% of revenues**	RMB' 000	% of revenues
Content costs	**1,529,313**	**30.4**	1,280,011	31.3
Production costs of TV, web and animated series and films	**273,276**	**5.4**	57,713	1.4
Online reading platform distribution costs	**196,165**	**3.9**	237,704	5.8
Cost of physical inventories recognized as expenses	**162,537**	**3.2**	144,804	3.5
Amortization of intangible assets	**111,849**	**2.2**	110,093	2.7
Others	**207,131**	**4.1**	189,301	4.6
Total cost of revenues	**2,480,271**	**49.2**	2,019,626	49.3

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

Income tax expense. Income tax expense increased from RMB83.0 million in 2017 to RMB165.4 million in 2018, mainly driven by our greater profit before income tax.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 63.7% from RMB556.1 million in 2017 to RMB910.6 million in 2018.

Segment Information:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

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

Notes:

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

(2) Adjusted EBITDA is calculated as EBITDA for the year plus share-based compensation the expenditure related to acqusition in 2018 and one-off listing expenses in 2017.

(3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by revenues.

(4) Net cash is calculated as cash and cash equivalents, term deposits and restricted bank deposits, less total borrowings and other payables bearing interests due to a related party.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following table reconciles our operating profit to our EBITDA and adjusted EBITDA for the year presented:

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

Non-GAAP Financial Measure:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-GAAP financial measures, namely operating profit, operating margin, profit for the year, net margin, profit attributable to equity holders of the Company, basic EPS and diluted EPS as additional financial measures, have been presented in this annual results announcement for the convenience of readers. These unaudited non-GAAP financial measures should be considered in addition to, and not as a substitute for, measures of our Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth the reconciliations of our Group's non-GAAP financial measures for the years ended December 31, 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

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

	Year ended December 31, 2017							
		Adjustments						
	As reported	Share-based compensation	Net (gain) from investee companies[1]	Amortization of intangible assets[2]	One-off listing expenses	Impairment provision[3]	Interest (income) on IPO subscription deposit	Non-GAAP
	(RMB' 000, unless specified)							
Operating profit	614,563	137,446	(158,380)	63,117	45,502	156,254	(55,575)	802,927
Profit for the year	562,692	137,446	(124,598)	47,338	45,502	117,190	(55,575)	729,995
Profit attributable to equity holders of the Company	556,129	137,446	(124,598)	45,723	45,502	117,190	(55,575)	721,817
EPS (RMB per share)								
– basic	0.74							0.96
– diluted	0.72							0.94
Operating margin	15.0%							19.6%
Net margin	13.7%							17.8%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) The Group applied the new rules of IFRS 9 "Financial Instruments" from January 1, 2018, and reclassified its investments in redeemable shares of associates to financial assets at fair value. During the year ended December 31, 2018, this item includes fair value gains on financial assets at fair value, gains on deemed disposal of a subsidiary and net gain related to acquisition of New Classics Media of RMB54.5 million. During the year ended December 31, 2017, this item includes fair value gain of investments in redeemable shares of associates, dilution gains and gains from the disposal of investee companies.

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

(3) Includes impairment provision for intangible assets.

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets grew from RMB15,137.4 million as of December 31, 2017 to RMB27,834.6 million as of December 31, 2018, while our total liabilities changed from RMB2,474.7 million as of December 31, 2017 to RMB9,419.6 million as of December 31, 2018. Liabilities-to-assets ratio changed from 16.3% at the end of 2017 to 33.8% at the end of 2018.

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

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

Liquidity and Financial Resources

Our Group funds our cash requirements principally from capital contributions from shareholders, cash generated from our operations, and borrowings from related parties and bank loans. As of December 31, 2018, our Group had net cash of RMB6,358.3 million. The decrease in net cash in 2018 was mainly due to the cash paid-out at the completion of the New Classics Media acquisition and the business expansion. Our bank balances and term deposits are primarily held in USD and RMB. Our Group monitors capital on the basis of the gearing ratio, which is calculated as debt divided by total equity. As of December 31, 2018:

- Our gearing ratio was 13.4% (2017: 3.8%).
- Our total borrowings and other payables bearing interests due to a related party were RMB2,465.4 million, which were primarily denominated in RMB.
- Our unutilized banking facility under the aforementioned loan facility agreement was RMB131.4 million.

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

As of December 31, 2018 and 2017, our Group had not used any financial instruments for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the year ended December 31, 2018 totaled RMB417.9 million (2017: RMB240.7 million), representing a year-over-year increase of RMB177.2 million which was primarily due to our additional investments in associates and a joint venture solely in the form of ordinary shares. Our long-term investments were made in accordance with our general strategy of investing or acquiring business that are complementary to our business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the IPO Proceeds.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency during the years ended December 31, 2018 and 2017.

Employee

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

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

Acquisition of New Classics Media

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

MANAGEMENT DISCUSSION AND ANALYSIS

Adjustment of earn out consideration under the Earn Out Mechanism:

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

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

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

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 40, is an Executive Director and the Co-Chief Executive Officer appointed on 6 November 2014. He is a member of the Remuneration Committee of the Company and the chairman of its Strategy and Investment Committee, and is also a director of certain subsidiaries of the Company.

Mr. Wu joined the Group in October 2004. 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 Cloudary 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;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited 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;
- Beijing Yuewen Science and Technology Co., Ltd. as an executive director and manager;
- Shengyun Information Technology as a director and manager;
- Tianjin Xuanting Information Technology Co., Ltd. as an executive director;
- Yueting Information Technology (Tianjin) Co., Ltd. as a director;
- Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. as an executive director;
- China Literature Pictures as an executive director and manager;
- New Classics Media Corporation as a director; and
- XinLi (Tianjin) Media Technology Co., Ltd. as a director.

Mr. Liang Xiaodong

Aged 42, is an Executive Director and the Co-Chief Executive Officer appointed on 6 November 2014. He is a member of the Strategy and Investment Committee of the Company, and is also a director of certain subsidiaries of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang joined the Group in March 2009. He is responsible for the overall strategic planning and business direction of the Company. Mr. Liang 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 Cloudary Corporation between March 2009 and December 2013, the chief executive officer of Cloudary 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;
- New Classics Media Holdings Limited as a director;
- New Classics Media Hong Kong Limited 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 and chairman of the board of directors;
- Tianjin Under Banyan as a director and chairman of the board of directors;
- Ningbo Yuewen Wenxing Investment Management Co., Ltd. as an executive director;
- Ningbo Xihe Investment Management Co., Ltd. as an executive director;
- New Classics Media Corporation as a director; and
- XinLi (Tianjin) Media Technology Co., Ltd. as a director.

Non-executive Directors

Mr. James Gordon Mitchell

Aged 45, is a Non-executive Director and the Chairman of the Board since June 2017. He is the chairman of the Nomination Committee of the Company and a member of its Strategy and Investment Committee. Mr. Mitchell is a Senior Executive Vice President and the Chief Strategy Officer of Tencent Holdings, where he has worked since July 2011. He is also director of certain other listed companies including Yixin Group Limited (listed on the Stock Exchange under the stock code: 02858) and Frontier Developments Plc (listed on the London Stock Exchange under the symbol AIM: FDEV), NIO Inc. (NYSE: NIO) and Tencent Music Entertainment Group (NYSE: TME), and of several unlisted companies. Prior to joining Tencent, Mr. Mitchell was a managing director at Goldman Sachs. He is a CFA® charterholder and received a degree from Oxford University.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Haifeng

Aged 42, is a Non-executive Director appointed on 6 November 2014. He is a member of the Strategy and Investment Committee of the Company, and is also a director of certain subsidiaries of the Company. He has been the general manager of the merger and acquisitions department at Tencent Technology (Shenzhen) Co., Ltd since November 2010. He is currently an executive director of Huayi Tencent Entertainment Co., Ltd. (listed on the Stock Exchange under the stock code: 00419), a non-executive director of Tongcheng-Elong Holdings Limited (listed on the Stock Exchange under the stock code: 00780) and also a director of Pinduoduo Inc. (listed on Nasdaq Stock Market, NASDAQ: PDD). 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 43, is a Non-executive Director appointed on 18 October 2017. She is a member of the Strategy and Investment Committee 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 54, is a Non-executive Director appointed on 9 May 2016. He is a member of the Audit Committee 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 then joined The Carlyle Group as Managing Director and Co-Head of the Asia buyout advisory team. Since January 2017, Mr. Yang 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). Mr. Yang also 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 administration from Harvard Business School.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Ms. Yu Chor Woon Carol

Aged 56, is an Independent Non-executive Director appointed on 26 October 2017. She is the chairman of the Audit Committee, a member of the Remuneration Committee and Nomination Committee of the Company. Ms. Yu is responsible to provide independent opinion and judgment to the Board. She is an independent director of China Distance Education Holdings Limited (NYSE: DL). 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 51, is an Independent Non-executive Director appointed on 26 October 2017. She is the chairman of the Remuneration Committee and a member of Audit Committee 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 a director of CCBI Metdist Limited since 14 November 2018. 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 69, is an Independent Non-executive Director appointed on 26 October 2017. He is a member of the Nomination Committee of the Company. Mr. Liu is responsible to provide independent opinion and judgment to the Board. He is also an independent non-executive director of Chinese People Holdings Company Limited (listed on the Stock Exchange under the stock code: 00681) and China Huarong Asset Management Co., Ltd. (listed on the Stock Exchange under the stock code: 02799). 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 44, 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 Cloudary 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;
- Qisheng Culture Communication as a manager;
- Tianjin Xuanting Information Technology Co., Ltd. as a manager;
- Yueting Information Technology (Tianjin) Co., Ltd. as a manager; and
- Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. as a manager.

Mr. Lin Tingfeng

Aged 41, 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 Cloudary 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 41, 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.

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 39 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income on page 100 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, 2018 (2017: 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 21 of this annual report.

MAJOR SUPPLIERS AND CUSTOMERS

Major Customers

For the year ended December 31, 2018, 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, 2018, 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 32 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 pages 103 to 104 in the consolidated statement of changes in equity and Note 32, Note 33 and Note 42 to the consolidated financial statements.

REPORT OF DIRECTORS

DISTRIBUTABLE RESERVES

As of December 31, 2018, the Company's reserves available for distribution, amounted to approximately RMB17,435 million (as of December 31, 2017: RMB12,987 million).

DIVIDEND POLICY

The Board has adopted the Dividend Policy to set out the criteria based on which the Board may declare and pay dividends to the shareholders of the Company. Such declaration and payment of dividends shall remain to be determined at the absolute discretion of the Board and subject to all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the Companies Law of the Cayman Islands and the Articles of Association of the Company.

The Board may from time to time pay to the shareholders such interim dividends subject to the Companies Law of the Cayman Islands and the Articles of Association of the Company. Except in the case of interim dividends, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at an annual general meeting and must not exceed the amount recommended by the Board. Dividends may be distributed in the form of cash or shares subject to and in accordance with the Companies Law of the Cayman Islands and the Articles of Association of the Company. In proposing any dividend payment, the Board shall take into account the following criteria, including:

- the Group's actual and expected results of operations and cash flow and financial position;
- general business conditions and the Group's business strategies;
- distributable profit, retained earnings and/or distributable reserves of the Company and the members of the Group;
- the Group's expected working capital requirements and future expansion plans;
- the Group's indebtedness level and liquidity position;
- legal, regulatory and other contractual restrictions on the Group's declaration and payment of dividends; and
- other factors that the Board deems appropriate.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2018 are set out in Note 29 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting 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)*

REPORT OF DIRECTORS

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, Ms. Li Ming, Mr. Yang Xiang Dong and Mr. Liu Junmin shall retire by rotation, and Mr. Liu Junmin will retire at the AGM and, being eligible, will offer himself for re-election as Director at the AGM. Each of Ms. Li Ming and Mr. Yang Xiang Dong, though being eligible, will not offer herself/himself for re-election at the AGM as they need to devote more time to pursue the business.

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 22 to 26 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, subject to re-election as and when required under the Articles of Association. Either party has the right to give not less than three months' written notice to terminate the service contract.

Each of the non-executive Directors has entered into an appointment letter with the Company on October 19, 2017 for an initial term of three years, 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 for an initial term of three years, 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).

REPORT OF DIRECTORS

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.

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.

USE OF PROCEEDS

Our shares were listed on the Stock Exchange on November 8, 2017 by way of global offering and the net proceeds raised during our IPO were approximately RMB6,145 million (HKD7,235 million). As at December 31, 2018, the Group:

- had used approximately RMB345.4 million and had unutilised amount of approximately RMB1,498.1 million for expanding the Group's online reading business and sales and marketing activities;
- had used approximately RMB200.9 million and had unutilised amount of approximately RMB1,642.6 million for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles;
- had used approximately RMB1,734.0 million and had unutilised amount of approximately RMB109.5 million for funding our potential investments, acquisitions and strategic alliances; and
- had unutilised amount of approximately RMB614.5 million for working capital and general corporate purposes.

The remaining balance of the net proceeds was placed with banks. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

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

As of December 31, 2018, 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:

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	2.65
Mr. Liang Xiaodong(3)	Beneficiary of a trust	1,600,000	Long position	0.16
	Interest in a controlled corporation	2,400,000	Long position	0.23
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	5,626,960	0.06
Mr. Lin Haifeng[(5)]	Tencent Holdings Limited	Beneficial owner	238,135	0.00
Ms. Li Ming[(6)]	Tencent Holdings Limited	Beneficial owner	46,471	0.00
		Interest of spouse	9,100	0.00
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	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 1,022,554,246 Shares in issue as of December 31, 2018.

(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 1,600,000 Shares (subject to vesting conditions), which are held under a trust. He is also deemed to be interested in the 2,400,000 shares held by Equal Talent Group Limited in which he holds the entire share capital.

(4) These interests comprise (i) 1,780,800 shares of Tencent, (ii) 147,500 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 3,698,660 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(5) These interests comprise (i) 88,185 shares of Tencent, and (ii) 149,950 shares underlying Tencent in respect of the awarded shares granted to Mr. Lin Haifeng under share award schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(6) These interests comprise (i) 18,741 shares of Tencent, (ii) 15,935 shares underlying Tencent in respect of the awarded shares granted to Ms. Li Ming under share award schemes of Tencent, (iii) 11,795 shares underlying Tencent in respect of the options granted to Ms. Li Ming under share option schemes of Tencent, and (iv) 9,100 shares of Tencent held by the spouse of Ms. Li Ming. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(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, 2018, none of the Directors or 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 by the Company pursuant to 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, 2018, 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	600,643,104	Long position	58.74
THL A13 Limited[2], [3]	Beneficial owner	246,600,000	Long position	24.12
	Interest in controlled corporations	45,000,000	Long position	4.40
Qinghai Lake Investment Limited[2]	Beneficial owner	230,705,634	Long position	22.56
Tencent Mobility Limited[2]	Beneficial owner	78,337,470	Long position	7.66
CAP IV, L.L.C. [4]	Interest in controlled corporations	68,141,592	Long position	6.66
Carlyle Holdings II GP L.L.C. [4]	Interest in controlled corporations	68,141,592	Long position	6.66
The Carlyle Group L.P. [4]	Interest in controlled corporations	68,141,592	Long position	6.66
Luxun Investment Limited[4]	Beneficial owner	49,713,624	Long position	4.86
Li Shujun[5]	Interest in controlled corporations	78,731,958	Long position	7.70

REPORT OF DIRECTORS

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company[1] (%)
TB Partners GP5 Limited[5]	Interest in controlled corporations	78,731,958	Long position	7.70
TB Partners GP5, L.P. [5]	Interest in controlled corporations	78,731,958	Long position	7.70
Trustbridge Partners V, L.P. [5]	Beneficial owner	33,731,958	Long position	3.30
	Interest in controlled corporations	45,000,000	Long position	4.40
Cao Huayi[6]	Interest in controlled corporations	54,962,927	Long position	5.38
C-Hero Limited[6]	Beneficial owner	45,911,762	Long position	4.49
	Interest in controlled corporations	9,051,165	Long position	0.89

Notes:

(1) The calculation is based on the total number of 1,022,554,246 Shares in issue as of December 31, 2018.

(2) THL A13, Qinghai Lake and Tencent Mobility Limited are wholly-owned subsidiaries of Tencent. Under the SFO, Tencent is deemed to be interested in (i) the 477,305,634 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 78,337,470 Shares Tencent Mobility Limited is interested in under the Share Purchase Agreement.

(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.

(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) Mr. Cao Huayi is interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and is therefore deemed to be interested in the 45,911,762 Shares and 9,051,165 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the Share Purchase Agreement, respectively.

REPORT OF DIRECTORS

Save as disclosed above, as of December 31, 2018, the Directors and the chief executives of the Company were not aware of any persons (other than the 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 to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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.

Maximum Numbers 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).

REPORT OF DIRECTORS

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.

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 respectively.

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 respectively.

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 respectively.

The RSUs granted in respect of 3,900,500 underlying Shares (excluding the RSUs, forfeited) on October 29, 2018 have a vesting period of five years, one-fifth of which will each vest on October 29, 2019, 2020, 2021, 2022 and 2023 respectively.

REPORT OF DIRECTORS

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, 2018	Vesting Period
Liang Xiaodong	December 23, 2014	4,000,000 Shares	—	December 23, 2015 - December 23, 2019

Movements in the number of RSUs outstanding are as follows:

	Number of RSUs
As of January 1, 2018	**20,303,500**
Granted	**3,909,500**
Forfeited	**(539,000)**
Vested	**(6,197,000)**
Outstanding balance as of December 31, 2018	**17,477,000**
As of January 1, 2017	11,131,500
Granted	13,187,500
Forfeited	(305,000)
Vested	(3,710,500)
Outstanding balance as of December 31, 2017	20,303,500

REPORT OF DIRECTORS

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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following connected transactions and continuing connected transactions during the year ended December 31, 2018:

Connected Transactions

The following transactions of the Group constituted Connected Transactions for the Company for the year ended December 31, 2018.

1. **Joint Filming Agreement I**

   On January 4, 2018, Yuewen Film, a consolidated affiliated entity of the Company, entered into the Joint Filming Agreement I with Xinli TV, pursuant to which Yuewen Film has agreed to join an existing group of investors (including Tencent Pictures, which is a connected person) to participate in the filming of the TV Series and contribute RMB67,296,031.20 (equivalent to approximately HK$80,884,652.88) to such project. The Investors shall share the net proceeds from the distribution of the TV Series in proportion to their respective investment. For further details of the Joint Filming Agreement I, please refer to the announcement of the Company dated January 4, 2018.

2. **Advertisement Cooperation Agreement**

   On January 4, 2018, Shanghai Yuewen, a consolidated affiliated entity of the Company, entered into the Advertisement Cooperation Agreement with Tencent Computer (a connected person) and Tenpay (a connected person), pursuant to which, Tencent Computer and Tenpay have agreed to provide advertisement services to Shanghai Yuewen for a total consideration of RMB20,000,000 (equivalent to approximately HK$24,038,461.54). For further details of the Advertisement Cooperation Agreement, please refer to the announcement of the Company dated January 4, 2018.

REPORT OF DIRECTORS

3. IP License Agreement

On February 6, 2018, Shanghai Yuewen, a consolidated affiliated entity of the Company, entered into the IP License Agreement with Cang Qiong Entertainment (a connected person), pursuant to which Shanghai Yuewen has agreed to license certain Adaptation Rights to Cang Qiong Entertainment with respect to the Literary Work for a total consideration of RMB50,000,000 (equivalent to approximately HK$62,000,000). For further details of the IP License Agreement, please refer to the announcement of the Company dated February 6, 2018.

4. Joint Filming Agreement II

On February 6, 2018, Yuewen Film, a consolidated affiliated entity of the Company, entered into the Joint Filming Agreement II with Tencent Pictures (a connected person), pursuant to which Yuewen Film has agreed to join Tencent Pictures and independent third-party investors to participate in the filming of the TV Series and contribute RMB32,016,000 (inclusive of tax) (equivalent to approximately HK$39,699,840) to such project. The Investors shall share the net proceeds from the distribution of the TV Series in proportion to their respective investment. For further details of the Joint Filming Agreement II, please refer to the announcement of the Company dated February 6, 2018.

5. Share Purchase Agreement

On August 13, 2018, China Literature, entered into the Share Purchase Agreement with Tencent Mobility (a connected person), C-Hero Limited, Ding Dong-D Limited and X-Poem Limited (the "**Vendors**"), pursuant to which the Vendors conditionally agreed to sell, and the Company has conditionally agreed to acquire, 100% equity interest in New Classics Media. For further details of the Share Purchase Agreement, please refer to the announcements of the Company dated August 13, 2018, September 24, 2018 and October 31, 2018 and the circular of the Company dated September 28, 2018.

The aggregate maximum interest Consideration for the acquisition of 100% equity interest of New Classics Media pursuant to the Share Purchase Agreement is approximately RMB15.5 billion subject to a downward-only adjustment mechanism (the "**Earn Out Mechanism**") and will be settled by a combination of cash and new Shares based on the terms and subject to the conditions set forth in the Share Purchase Agreement.

On October 31, 2018, 116,137,007 new shares have been issued by the Company to the Vendors in accordance with the terms of the Share Purchase Agreement. As the Net Profit (as defined in the circular of the Company dated September 28, 2018) for the year ended December 31, 2018 is approximately RMB324.3 million, the Company will not issue shares in 2019.

New Classics Media has become a wholly owned subsidiary of the Company and a member of the Group. As such, the transactions entered into between the Group and New Classics Media and its subsidiaries no longer constitute the connected transactions.

REPORT OF DIRECTORS

Non-exempt Continuing Connected Transactions

The following transactions of the Group constituted Continuing Connected Transactions for the Company for the year ended December 31, 2018.

1. Promotion Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (on behalf of the Group) entered into the Promotion Cooperation Framework Agreement with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group, a connected person), 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.

On March 20, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group, a connected person) entered into the Revised Promotion Cooperation Framework Agreement as a supplemental agreement to the Promotion Cooperation Framework Agreement, pursuant to which the Retained Tencent Group has agreed to provide more promotion services to the Group including but not limited: (i) distribution of red packets (紅包) and coupons on the platforms of the Retained Tencent Group; and (ii) optimization of search results on search engines of the Retained Tencent Group.

The payment and settlements for the promotion service payable by the Retained Tencent Group should be calculated on (i) fixed amount of service fee; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

For further details of the Revised Promotion Cooperation Framework Agreement, please refer to the announcement of the Company dated March 20, 2018.

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, 2018 is RMB100.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB42.8 million.

2. Payment Services Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (on behalf of the Group) entered into the Payment Services Cooperation Framework Agreement with Tencent Computer, a subsidiary of Tencent, (on behalf of the Retained Tencent Group, a connected person), 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, 2018 is RMB18.9 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB11.2 million.

3. Cloud Services and Technical Services Framework Agreement

On October 21, 2017, Shanghai Yueting (on behalf of the Group) entered into with Tencent Computer (on behalf of the Retained Tencent Group, a connected person) 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, 2018 is RMB70.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB52.2 million.

REPORT OF DIRECTORS

4. Online Platform Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group a connected person) 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.

For further details of the above continuing connected transactions, please refer to the section headed "Connected Transactions–Non–exempt Continuing Connected Transactions" on pages 262 to 283 of the Prospectus.

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, 2018, 6 transactions had been conducted with platforms including Mobile QQ, QQ Browser, Tencent News, Weixin Reading and Tencent Video under the Online Platform Cooperation Framework Agreement with the average revenue sharing percentage of 23.8%. The actual transaction amount of the Online Platform Cooperation CCTs is approximately RMB196.2 million for the year ended December 31, 2018.

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, 2018 is approximately RMB196.2 million.

5. IP Cooperation Framework Agreement

On October 21, 2017, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group, a connected person) 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.

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, 2018 shall not exceed RMB491.4 million (being 12% of the audited revenue of our Group for the year ended December 31, 2017).

REPORT OF DIRECTORS

During the Reporting Period, 73 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 RMB264.9 million. For the year ended December 31, 2018, the aggregate revenue generated by the IP Cooperation CCTs to our Group amounted to RMB264.9 million, representing 6.5% of the audited revenue of our Group 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, the annual cap for the year ended December 31, 2018 is approximately RMB491.4 million, being 12% of the audited revenue of the Group for the year ended December 31, 2017, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB264.9 million.

For further details of the above continuing connected transactions, please refer to the section headed "Connected Transactions - Non-exempt Continuing Connected Transactions" on pages 262 to 283 of the Prospectus.

6. Literary, Audio and Comics Work Licensing Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Literary, Audio and Comics Work Licensing Agreement with Tencent Computer (on behalf of the Retained Tencent Group, a connected person), pursuant to which the Retained Tencent Group has agreed to license the information network transmission rights of its literary, audio and comics work to the Group, and the Group shall pay licensing fees to the Retained Tencent Group in return. The term of the Literary, Audio and Comics Work Licensing Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

The licensing fees payable by the Group to the Retained Tencent Group shall be calculated on (i) fixed amount of licensing fees; (ii) revenue sharing; or (iii) mixture of (i) and (ii). Payment and settlement terms under the Literary, Audio and Comics Work Licensing Agreement shall be specified in each of the implementation agreements to be entered into under the Literary, Audio and Comics Work Licensing Agreement.

The annual cap for the year ended December 31, 2018 is RMB15.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB7.2 million. For further details of the Literary, Audio and Comics Work Licensing Agreement, please refer to the announcement of the Company dated March 20, 2018.

7. **Audio and Comics Cooperation Agreement**

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Audio and Comics Cooperation Agreement with Tencent Computer (on behalf of the Retained Tencent Group, a connected person), pursuant to which (i) the Group has agreed to license the information network transmission rights of such audio and comics work to the Retained Tencent Group, and the Retained Tencent Group shall pay licensing fees to the Group in return. The Group will not be involved in the price setting and operation of such audio and comics work to the Group shall be distributed by the Retained Tencent Group; and (ii) The Group has agreed to distribute audio work operated by the Group on the platforms of the Retained Tencent Group on a non-exclusive basis, and the Retained Tencent Group shall receive distribution fees from the Group in return and the Group shall have the sole discretion over the operation and the price setting of the audio work operated by the Group. The term of the Audio and Comics Cooperation Agreement shall commence on May 18, 2018 and expire on December 31, 2020.

The annual cap of (i) the licensing fees payable by the Retained Tencent Group to the Group for the year ended December 31, 2018 is RMB7.5 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0.4 million; and (ii) the distribution fees payable by the Group to the Retained Tencent Group for the year ended December 31, 2018 is RMB4.1 million, while the actual transaction amount for the year ended December 31, 2018 is RMB0 million. For further details of the Audio and Comics Cooperation Agreement, please refer to the announcement of the Company dated March 20, 2018 and the circular of the Company dated April 12, 2018.

8. **Novel Creation and Solicitation Cooperation Agreement**

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Novel Creation and Solicitation Cooperation Agreement with Tencent Computer (on behalf of the Retained Tencent Group, a connected person), pursuant to which (i) the Group shall create novels based on IP concepts of the Retained Tencent Group in accordance with the requirements provided by the Retained Tencent Group, and the Retained Tencent Group shall pay commission to the Group for such novel creation services provided by the Group; and (ii) the Group shall organize novel writing competition with or on behalf of the Retained Tencent Group, and the Retained Tencent Group shall undertake the cost of such competition and pay commission to the Group for the services of organizing such novel writing competition by the Group. The term of the Novel Creation and Solicitation Cooperation Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

Payment and settlement terms under the Novel Creation and Solicitation Cooperation Agreement shall be specified in each of the implementation agreements under the Novel Creation and Solicitation Cooperation Agreement.

The annual cap for the year ended December 31, 2018 is RMB5.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0.4 million. For further details of the Novel Creation and Solicitation Cooperation Agreement, please refer to the announcement of the Company dated March 20, 2018.

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9. Game Cooperation Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Game Cooperation Agreement with Tencent Computer (on behalf of the Retained Tencent Group, a connected person), pursuant to which (i) the Group shall have the right to license games, which are legally owned by or licensed to it, to the Retained Tencent Group for operations on the Retained Tencent Group's platforms on a non-exclusive basis, and the Group shall pay distribution fees to the Retained Tecent Group in return; and (ii) the Retained Tencent Group shall have the right to license games, which are legally owned by or licensed to it, to the Group for operations on the Group's platforms on a non-exclusive basis, and the Retained Tencent Group shall pay distribution fees to the Group in return. The term of the Game Cooperation Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

The distribution fees payable by the Group or the Retained Tencent Group (as the case may be) for the distribution of the Group's or the Retained Tencent Group's games to the other's platforms shall be calculated on (i) fixed amount of distribution fees; (ii) revenue sharing; or (iii) mixture of (i) and (ii). Payment and settlement terms under the Game Cooperation Agreement shall be specified in the each of the implementation agreements under the Game Cooperation Agreement.

The annual cap of (i) the distribution fee payable and/or revenue to be shared by the Group to the Retained Tencent Group for the year ended December 31, 2018 is RMB30.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0.8 million; and (ii) the distribution fee payable and/or revenue to be shared by the Retained Tencent Group to the Group for the year ended December 31, 2018 is RMB2.4 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0 million. For further details of the Game Cooperation Agreement, please refer to the announcement of the Company dated March 20, 2018.

10. Virtual Currency Purchase Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Virtual Currency Purchase Agreement with Tencent Computer (on behalf of the Retained Tencent Group, a connected person), pursuant to which the Retained Tencent Group shall purchase virtual currency of the Group, which can be consumed on the Group's platforms to purchase the Group's services and products for marketing and promotional purposes. The term of the Virtual Currency Purchase Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

Payment and settlement terms under the Virtual Currency Purchase Agreement shall be specified in each of the implementation agreements under the Virtual Currency Purchase Agreement.

The annual cap for the year ended December 31, 2018 is RMB48.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB10.1 million. For further details of the Virtual Currency Purchase Agreement, please refer to the announcement of the Company dated March 20, 2018.

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11. Joint Investment Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into the Joint Investment Agreement with Tencent Computer (on behalf of the retained Tencent Group, a connected person), pursuant to which the Group has agreed to cooperate with the Retained Tencent Group (i) making joint investments in the production and distribution of movies and television series; (ii) making joint investments in the research and development of games, animations, comics and other products; and (iii) forming joint ventures or other joint arrangements (whether as a joint venture company, partnership or in any other form) for the purpose of the above joint investments. The term of the Joint Investment Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

Payment and settlement terms under the Joint Investment Agreement shall be specified in each of the implementation agreements under the Joint Investment Agreement.

The annual cap for the year ended December 31, 2018 is RMB400.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB93.1 million. For further details of the Joint Investment Agreement, please refer to the announcement of the Company dated March 20, 2018.

12. Comprehensive Cooperation Agreement

On March 20, 2018, Shanghai Yueting (on behalf of the Group) entered into Comprehensive Cooperation Agreement with Sogou Technology (on behalf of the Sogou Group, a connected person) in relation to (i) game cooperation; (ii) online platform cooperation; and (iii) audio work licensing. The distribution fee payable by the Group and the Sogou Group for the game cooperation and the licensing fees payable by the Sogo Group for the online platform cooperation and the audio work licensing fees should be calculated on (i) fixed amount of licensing fees/distribution fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). The term of the Comprehensive Cooperation Agreement shall commence on March 20, 2018 and expire on December 31, 2020.

On October 19, 2018, Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of its subsidiaries and entities controlled through contractual arrangement) entered into the Supplemental Agreement to amend the Comprehensive Cooperation Agreement, pursuant to which the parties agreed the scope of Sogou Group under the Comprehensive Cooperation Agreement will be extended to cover the Sogou Group, Sogou Technology, its subsidiaries and entities controlled through contractual arrangement.

REPORT OF DIRECTORS

The annual cap of (i) distribution fees payable or revenue/profit to be shared by the Group to the Sogou Group for the distribution of the Group's games on platforms of the Sogou Group in respect of the game cooperation for the year ended December 31, 2018 is RMB3.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0 million; (ii) distribution fees payable or revenue/profit to be shared by the Sogou Group to the Group for the distribution of the Sogou Group's games on platforms of the Group in respect of the game cooperation for the year ended December 31, 2018 is RMB1.5 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB0.2 million; (iii) licensing fees payable or revenue/profit to be shared by the Sogou Group to the Group for the licensing of our literary work to the Sogou Group in respect of the online platform cooperation for the year ended December 31, 2018 is RMB80.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB43.9 million; and (iv) the licensing fee payable or revenue/profit to be shared by the Sogou Group to the Group for the licensing of audio work for the year ended December 31, 2018 is RMB1.5 million, while the actual transaction amount for the year ended December 31, 2018 is RMB0 million. For further details of the Comprehensive Cooperation Agreement, please refer to the announcements of the Company dated March 20, 2018 and October 19, 2018.

13. Cooperation Agreement on the Copyright

On May 18, 2018, Shanghai Yueting (on behalf of the Group), entered into the Cooperation Agreement on the Copyright and joint investment with New Classics Media Corporation (on behalf of the Xinli Group), pursuant to which the parties have agreed to, among other things, cooperate in areas of copyright and joint investment. The term of the Cooperation Agreement on the Copyright shall commence on May 18, 2018 and expire on December 31, 2020.

The annual cap for the year ended December 31, 2018 is RMB130.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB6.6 million. For further details of the Cooperation Agreement on the Copyright, please refer to the announcement of the Company dated May 18, 2018.

As New Classics Media Corporation has become an indirect wholly owned subsidiary of the Company October 31, 2018 after the completion of the acquisition of New Classics Media, New Classics Media Corporation is no longer a connected person of the Company. Therefore, the Cooperation Agreement on the Copyright no longer constitutes a continuing connected transaction. For further details of New Classics Media, please refer to the announcement of the Company dated August 13, 2018.

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14. Distribution Framework Agreement

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the Distribution Framework Agreement, pursuant to which the Group has agreed to license information network transmission rights and the broadcast rights of the audiovisual works including television series, web series, films and animation to the Retained Tenceht Group and the Retained Tencent Group shall pay licensing fees to the Group in return. The term of the Distribution Framework Agreement shall commence on October 19, 2018 and expire on December 31, 2020.

The licensing fees payable by the Retained Tencent Group to the Group shall be calculated on (i) fixed amount of licensing fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The annual cap for the year ended December 31, 2018 is RMB1,400.0 million, while the actual transaction amount for the year ended December 31, 2018 is RMB0 million. For further details of the Distribution Framework Agreement, please refer to the announcement of the Company dated August 13, 2018 and the circular of the Company dated September 28, 2018.

15. Copyright Purchase Framework Agreement

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the Copyright Purchase Framework Agreement, pursuant to which the Retained Tencent Group has agreed to license the adaptation rights of various work with legal rights attached (including game, literary work, etc.), whilst the Group shall pay licensing fees to the Retained Tencent Group in return. The term of the Copyright Purchase Framework Agreement shall commence on August 13, 2018 and expire on December 31, 2020.

The licensing fees payable by the Retained Tencent Group to the Group shall be calculated on (i) fixed amount of licensing fees; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

The annual cap for the year ended December 31, 2018 is RMB50.0 million, while the actual transaction amount for the year ended December 31, 2018 is RMB0 million. For further details of the Copyright Purchase Framework Agreement, please refer to the annou.ncement of the Company dated August 13, 2018.

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16. Media Production Consignment Agreement

On August 13, 2018, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group, a connected person) entered into the Media Production Consignment Agreement, pursuant to which the Group has agreed to produce audiovisual works for the Retained Tencent Group and the Retained Tencent Group shall pay consideration to the Group for the production of these audiovisual works. The term of the Media Production Consignment Agreement shall commence on August 13, 2018 and expire on December 31, 2020.

The consideration payable by the Retained Tencent Group to the Group shall be calculated on (i) fixed amount of consideration; (ii) revenue sharing; or (iii) the mixture of (i) and (ii).

As the transactions in respect of the film production are new business opportunities that the Group and the Retained Tencent Group plan to develop in the year 2019, no historical data is available for reference as far as the annual cap for the year ended December 31, 2018 and the actual transaction amount for the year ended December 31, 2018. For further details of the Media Production Consignment Agreement, please refer to the announcement of the Company dated August 13, 2018.

17. Cooperation Agreement

On October 19, 2018, Shanghai Yueting (on behalf of the Group) entered into the Cooperation Agreement with Tianwen Kadokawa (on behalf of the Kadokawa Group, a connected person), pursuant to which the parties have agreed to, among other things, cooperate in (i) adaptation of literary work; (ii) physical books publication; and (iii) production and sales of peripheral products. The fees payable by the Kadokawa Group to the Group shall be calculated on (i) fixed fee; (ii) revenue sharing; or (iii) the mixture of (i) and (ii). The term of the Cooperation Agreement shall commence on October 19, 2018 and expire on December 31, 2020.

The annual cap for the year ended December 31, 2018 is RMB10.0 million, while the actual transaction amount for the year ended December 31, 2018 is approximately RMB7.7 million. For further details of the Cooperation Agreement, please refer to the announcement of the Company dated October 19, 2018.

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.

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 40 to 50 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, 2018 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 40 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.

Save as disclosed in this annual report, during the year ended December 31, 2018, 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.

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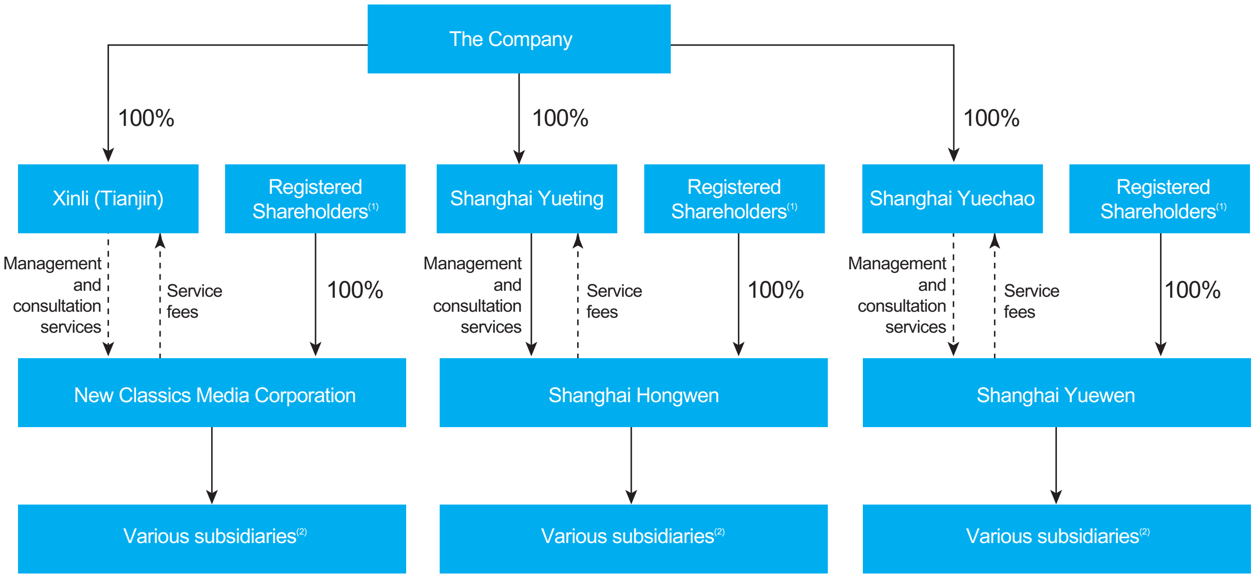
Contractual Arrangements

Our Company has entered into 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 (i) Shanghai Hongwen, Shanghai Yuewen and their respective subsidiaries (the "**Wen VIE**"); and (ii) New Classics Media Corporation (the "**NCM VIE**"). 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 WFOE(s) over the Registered Shareholders and the PRC Holdco(s) through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdco(s), (2) exclusive options to acquire all or part of the equity interests in the PRC Holdco(s) and (3) equity pledges over the equity interests in the PRC Holdco(s).

Notes:

(1) In the case of the Wen VIE, 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%. In the case of the NCM VIE, Registered Shareholders refer to the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, holding 40.0%, 6.7%, 34.0%, 15.3% and 4.1% of the equity interests, respectively in the PRC Holdco.

(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.

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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 the PRC Holder(s) entered into the Exclusive Business Cooperation Agreements with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their exclusive provider of technical support, consultation and other services, including the use of any relevant software legally owned by the WFOE(s); development, maintenance and updating of software in respect of the PRC Holdco(s)'(s) business; design, installation, daily management, maintenance and updating of network systems, hardware and database design; providing technical support and staff training services to relevant employees of the PRC Holdco(s); 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 Holdco(s) 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 the WFOE(s) and the PRC Holder(s), and the the Contractual Arrangements Date, the WFOE(s) have thus the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) 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 Holdco(s) have been transferred to the WFOE(s) or their/its appointee(s).

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(c) Equity Pledge Agreements

Under the Equity Pledge Agreements entered into between the WFOE(s), the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdco(s) that they own, including any interest or dividend paid for the Shares, to the WFOE(s) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the PRC Holdco(s) 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 Holdco(s) under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the PRC Holdco(s) under the relevant Contractual Arrangements have been fully paid.

(d) Powers of Attorney

The Registered Shareholders executed Powers of Attorney on the Contractual Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) and their/its 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 Holdco(s). The Powers of Attorney shall remain effective for so long as each Registered Shareholder holds equity interest in the PRC Holdco(s).

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our PRC Holdco(s) and/or Consolidated Affiliated Entities during the year ended December 31, 2018. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2018.

For the year ended December 31, 2018, 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, 2018, 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 RMB4,673 million for the year ended December 31, 2018, representing an increase by 17.6% from RMB3,975.1 million for the year ended December 31, 2017. For the year ended December 31, 2018, the revenue of Shanghai Hongwen and Shanghai Yuewen and their respective subsidiaries accounted for approximately 92.8% of the revenue for the year of our Group (2017: 97.1%).

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Reasons for Adopting the Contractual Arrangements

Pursuant to the Administrative Measures of Foreign Investment Admission (Negative List) 2018 Revision (外商投資准入特別管理措施 (負面清單) (2018年版)), foreign investments in the businesses of (i) production and operation of broadcasting and television programmes (including bringing-in of such programmes), film making, film distribution, film bringing-in and theatre are prohibited; and (ii) Internet publication, provision of audio-visual program services to the public, operation of online games and performing agency business are restricted. Since foreign investment in such business areas in which we currently operate are subject to restrictions on prohibitious 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 on prohibitious 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 and on page 63 to 68 of the circular of the Company dated September 28, 2018 (the "**Circular**").

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.

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- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. Our PRC Holdcos or their shareholders may fail to perform their obligations under our Contractual Arrangements.
- 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.
- Substantial uncertainties exist with respect to the interpretation and implementation of the 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 and on page 61 to 63 of the Circular.

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.

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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 four of the parties to the Contractual Arrangements, namely Litong, Ningbo Meishan Yuebao, Linzhi Tencent and Shiji Kaixuan, are connected persons. Litong, Linzhi Tencent and Shiji Kaixuan are accounted as subsidiaries of Tencent, and are therefore associates 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, waivers from strict compliance with (i) in the case of Wen VIE only, 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, among others, 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;

(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.

For further details of the waivers granted by the Stock Exchange, please refer to the Prospectus and the announcement of the Company dated September 24, 2018.

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, 2018 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

REPORT OF DIRECTORS

(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, 2018; 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, 2018 had received the approval of the Board, had been entered into in accordance with the relevant provisions of the Contractual Arrangements.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB1,730,000.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

Reference is made to the section headed "Business - Legal Proceedings and Compliance" in the Prospectus and the announcement of the Company dated September 19, 2018, in relation to, 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, updates of which are set out as follows:

- During the Reporting Period, the Company received written notices from the relevant courts that they had received and approved (i) Migu's withdrawal applications in relation to the above claims against Beijing Hongxiu, Shanghai Qiwen, Shanghai Xuanting and Xiaoxiang College, respectively; and (ii) the Company's withdrawal applications in relation to its counterclaims against Migu. The Company is not required to pay any damages to Migu for the alleged breach of contract given the withdrawal of the litigation.

To the best knowledge of the Board, no litigation or claim of material importance is pending or threatened against any member of the Group.

REPORT OF DIRECTORS

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 Foreign Investment Law,which was adopted at the Second Session of the 13th National People's Congress on March 15, 2019 and shall come into effect as of January 1, 2020 and how the Foreign Investment Law 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 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 41 to the consolidated financial statements.

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 61 to 77 of this annual report.

REPORT OF DIRECTORS

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 17, 2019. The register of members of the Company will be closed from Tuesday, May 14, 2019 to Friday, May 17, 2019, 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 Friday, May 10, 2019.

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.

Sincerely,
James Gordon Mitchell
Chairman of the Board and non-executive director

Hong Kong, March 18, 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2018 (the "**Relevant Period**").

The Board is committed to maintaining high standards of corporate governance and recognizes that good governance is vital for the long-term success and sustainability of the Company's business, and to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

CORPORATE GOVERNANCE PRACTICES

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. 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. The Company has made specific enquiries with the Directors and the Directors have confirmed they have complied with the Model Code for the Relevant Period.

THE BOARD

As at December 31, 2018, the Board comprises nine Directors, consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. The composition of the Board ensures a balance of skills and experience appropriate for the requirements of the business of the Group and the issuance of independent opinion. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

The Directors who held office during the year and up to the date of this annual report includes:

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

CORPORATE GOVERNANCE REPORT

All executive Directors, non-executive Directors and independent non-executive Directors have entered into service contracts with the Company for a specific term of three years. 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 Board considers a candidate's experience, skill and knowledge and competency and ability to fulfil duty of care and diligence and fiduciary duty and/or recommendation by the nomination committee of the Company (if any).

In compliance with Rules 3.10 and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors (representing not less than one-third of the Board), one of whom possesses appropriate professional qualifications in accounting or related financial management expertise. Each of the three independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules.

Pursuant to the Articles of Association, (i) any Director appointed as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall be eligible for re-election; and (ii) at least one-third or, if the number is not a multiple of three, the nearest to one-third of the Directors are subject to retirement from office by rotation and re-election at the annual general meeting of the Company once every three years. Accordingly, Ms. Li Ming, Mr. Yang Xiang Dong and Mr. Liu Junmin shall retire by rotation, and Mr. Liu Junmin will retire at the AGM and, being eligible, will offer himself for re-election as Director at the AGM. Each of Ms. Li Ming and Mr. Yang Xiang Dong, though being eligible, will not offer herself/himself for re-election at the AGM. All other Directors will continue in office.

All Directors have given sufficient time and attention to the affairs of the Group and, in particular, the non-executive and independent non-executive Directors have provided the Board with their diversified expertise and professional advices. The Board is of the view that there is a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors in the Board and the independent non-executive Directors are able to provide sufficient checks and balances to safeguard the interests of the shareholders of the Company and the Group. The participation of the independent non-executive Directors in the Board and committee meetings also provides independent judgement on the issues relating to strategy, policy, performance, accountability, conflict of interest and standards of conduct.

CORPORATE GOVERNANCE REPORT

The Board members have timely access to information relating to the Group's business and will be provided with further documents and information upon request to enable them to make informed decisions. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. 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. All Directors are entitled to have access to Board papers and related materials. These papers and related materials are in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. Queries raised by the Directors are given a prompt and full response.

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.

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.

DIRECTORS' LIABILITY INSURANCE AND INDEMNITY

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

RESPONSIBILITY OF THE BOARD

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance and to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to executive Directors and 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.

BOARD ACTIVITY

The Board holds meetings regularly and meets at other times as and when required to review the Group's overall strategies, financial and operational performances, approved the annual and interim results of the Group, risk management, regulatory compliance and corporate governance, and other significant matters. In addition, the Board holds general meetings to maintain an on-going dialogue with the Shareholders.

CORPORATE GOVERNANCE REPORT

The Board held seven Board meetings in 2018. The attendance of each director at Board, committee meetings, annual general meeting and extraordinary general meeting, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Board, Committee Meetings, Annual General Meeting and Extraordinary General Meeting						
Name of director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Strategy and Investment Committee	Annual General Meeting	Extraordinary General Meeting
Executive directors							
Mr. Wu Wenhui	7/7	N/A	N/A	3/3	1/1	1/1	1/1
Mr. Liang Xiaodong	7/7	N/A	N/A	N/A	1/1	1/1	1/1
Non-executive directors							
Mr. James Gordon Mitchell	7/7	N/A	1/1	N/A	1/1	1/1	1/1
Mr. Lin Haifeng	7/7	N/A	N/A	N/A	1/1	1/1	1/1
Ms. Li Ming	7/7	N/A	N/A	N/A	1/1	1/1	1/1
Mr. Yang Xiang Dong	7/7	2/2	N/A	N/A	N/A	1/1	0/1
Independent non-executive directors							
Ms. Yu Chor Woon Carol	7/7	2/2	1/1	3/3	N/A	1/1	1/1
Ms. Leung Sau Ting Miranda	7/7	2/2	N/A	3/3	N/A	1/1	1/1
Mr. Liu Junmin	7/7	N/A	1/1	N/A	N/A	1/1	1/1

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. The company secretary also ensures that all applicable rules and regulations in relation to the Board meetings are followed. Notices of not less than fourteen days are given by the company secretary 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. When there is potential or actual conflict of interests involving a substantial shareholder or a director, such director will declare his interest and will abstain from voting on such matters. Minutes of meetings are kept by the joint company secretary with copies circulated to all Directors or Board Committee members for information and records.

The directors may also seek independent professional advice at the Company's expense in appropriate circumstances.

The company secretary ensures that there is a good and timely flow of information to the Board. The company secretary is responsible for taking minutes of all Board and committee meetings and ensuring that sufficient details of the matters considered and decisions reached have been recorded. 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 kept by company secretary and are available for inspection by Directors at any time.

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 and C
Mr. Liang Xiaodong	A, B and C
Non-executive Directors	
Mr. James Gordon Mitchell	A, B and C
Mr. Lin Haifeng	C
Ms. Li Ming	C
Mr. Yang Xiang Dong	A, B and C
Independent Non-executive Directors	
Ms. Yu Chor Woon Carol	C
Ms. Leung Sau Ting Miranda	A and C
Mr. Liu Junmin	A and C

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND 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.

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;
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

The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and Strategy and Investment Committee, to oversee the relevant aspects of the Company's affairs. The four Board committees are provided with sufficient resources to discharge their duties. The Audit Committee, the Remuneration Committee and the Nomination Committee have its written terms of reference, which are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors namely Ms. Yu Chor Woon Carol (Chairman) and Ms. Leung Sau Ting Miranda and one non-executive Director namely Mr. Yang Xiang Dong.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive directors, to discuss any area of concern during the audit or review.

The Audit Committee's major work during the year 2018 includes:

1. to review the 2017 annual report, the Environmental, Social and Governance Report and annual results announcement;
2. to review the 2018 interim report and interim results announcement;
3. to review compliance with the CG Code, the Listing Rules and relevant laws;
4. 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;
5. 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
6. 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.

PricewaterhouseCoopers ("PwC") is the Group's external auditor. The Audit Committee annually reviews the relationship of the Company with PwC. Having also reviewed the effectiveness of the external audit process as well as the independence and objectivity of PwC, the Audit Committee is satisfied with this relationship. As such, the Audit Committee has recommended their re-appointment at the forthcoming AGM.

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.

Terms of Reference of the Audit Committee was revised on December 3, 2018 according to the revision of the CG Code which took into effect from January 1, 2019.

The Audit Committee held two meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee currently comprises three members, including one 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 primary duties of the Nomination Committee are: (i) to review the structure, size and composition of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee's major work during the year 2018 includes reviewing:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board 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;

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 Company recognises the benefits of having a diverse Board, and views diversity at Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage. As such, the Board has set measurable objectives for the implementation of the board diversity policy to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board. The Board has also implemented the nomination policy in relation to reviewing and assessing the Board composition, the Nomination Committee considers a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, perspectives, skills, knowledge, and industry and regional experience. The Nomination Committee is satisfied that the board diversity policy and nomination policy are successfully implemented. The Nomination Committee held one meeting during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

The Nomination Committee will continue to monitor the implementation of two policies and will review periodically to ensure its continued effectiveness.

Board Diversity Policy

The Board has adopted a Board Diversity Policy in relation to the nomination and appointment of new Directors, which provides that the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs.

CORPORATE GOVERNANCE REPORT

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the Directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

Nomination Policy

The Board has adopted the Nomination Policy to set out the approach to guide the Nomination Committee of the Company in relation to the selection, appointment and re-appointment of the directors of the Company. The Nomination Committee of the Company will assess, select and recommend candidate(s) for directorships to the Board by giving due consideration to criteria in which to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The Company will regularly review the Policy which ensures that it is transparent and fair, remains relevant to the Company's needs and reflects the current regulatory requirements and good corporate governance practice. Terms of Reference of the Nomination Committee was revised on December 3, 2018 according to the revision of the CG Code which took into effect from January 1, 2019.

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 primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive directors and senior management; and (iii) the remuneration of non-executive directors.

The Remuneration Committee's major work during the year 2018 includes 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.

CORPORATE GOVERNANCE REPORT

In conducting its work in relation to the remuneration of directors and senior management team, the Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. They are designed to attract, retain and motivate high performing individuals, and reflect the specifics of individual roles. The Remuneration Committee held three meetings during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meetings.

Strategy and Investment Committee

The Strategy and Investment Committee comprises five members, including two executive Directors namely Mr. Wu Wenhui (Chairman) 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. The Strategy and Investment Committee held one meeting during the Relevant Period and please refer to "Board Activity" for details of each member's attendance of the meeting.

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, 2018.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out on pages 22 to 26 of this annual report, for the year ended December 31, 2018 are set out below:

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

CORPORATE GOVERNANCE REPORT

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, 2018 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 90 to 99 of this annual 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.

To ensure the effectiveness of the risk management and internal control systems, the Company has adopted an internal control model with "Three Lines of Defense", and by taking into consideration the practical circumstances of the Company, an organizational framework of risk management and internal control has been established under the supervision and guidance of the Board.

The First Line of Defense – Operation and Management

The First Line of Defense is mainly comprising the various business and functional departments of the Group. It is responsible for the day-to-day operation and management as well as the implementation of risk management and internal control tasks.

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The Second Line of Defense – Risk Management

The Second Line of Defense is mainly comprising the risk control team of the Risk Control and Internal Audit Department of the Group. It is responsible for the formulation of policies relating to risk management and internal control of the Group, as well as the overall planning and establishment of the risk management and internal control systems of the Group. It assists the First Line of Defense to establish and improve the risk management and internal control systems through the establishment of the China Literature Internal Control Team. And by performing the supervision function, it can reasonably ensure the effective implementation of risk management and internal control tasks in the First Line of Defense.

The Third Line of Defense – Independent Assurance

The Third Line of Defense is mainly comprising the internal audit team of the risk control and internal audit department of the Group (including internal audit and anti-corruption functions). Through its internal audit functions, the internal audit team is responsible for the provision of independent evaluation and verification on the effectiveness of the risk management and internal control systems of the Group to assist the Board in performing risk management duties. The anti-corruption function is responsible for investigation work and promotional activities on anti-corruption.

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 data 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 data 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. Various business and functional departments of the Company identify and assess on regular basis the 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 2018.

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.

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In 2018, the management has identified five significant risks through the risk management process mentioned above. When compared with the preceding year, one significant risk, the risk of human resources, was removed, but another risk, namely crisis management and reputation risk, was added on board. As the business scale and scope of operation of the Company continue expanding, and the external operating environment is subject to constant changes, the management is of the view that the other four significant risks disclosed in 2017 will continue to exist. Due to changes in both internal and external environments, the market competition risk is believed to increase by a certain extent, while the other risks will remain stable. 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.

Market Competition and Innovation 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, and with movie and television 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, or our revenue from box office falls below expectation. Moreover, the user demand for innovation in products and services is also increasing, how to attract new users and maintain our market share also pose major challenges to the Company.

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, pooling resources together to enhance the technological capabilities of products and improve the environment for technological innovations continuously, developing products to meet the expectation of market users constantly, encouraging writers to output more IPs which meet the expectations and interests of the readers through innovations of management, converting literary content into movies and TV series, animated pictures, audio products and games, and reinforcing cooperation with business partners 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. Piracy in online literature and movie and television products undermines the paid reading model of the Company , affects the viewership of movie and television products, and may adversely and significantly affect core competency and success of the Company.

The Company has set up a number of professional departments and teams which are able to identify cases of infringement and collect evidence with other business departments of the Company in a timely manner for commencing litigation in the relevant jurisdictions on claims for the losses incurred and imposing punishment on unauthorized third parties.

Regulatory and Compliance Risk

Regulatory authorities in numerous jurisdictions have been developing more comprehensive and stringent regulations to regulate the internet industry and the movie and television industry, including obtaining and

CORPORATE GOVERNANCE REPORT

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.

Information Security 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.

Crisis Management and Reputation Risk

Online literature business and the movie and TV industry are highly dependent on market recognition and reputation of writers and artists. If the brand name of the Company is damaged for any reason or if the Company is unable to respond to negative information effectively (for example, the image and reputation of writers, artists or cooperative partners are adversely affected), the reputation of products and the brand image of the Company may be harmed, and in turn, the business and financial conditions and operating results of the Company will be affected.

The Company has set up a professional department and team for crisis and public relations management, a mechanism for crisis and public relations management is in place and agencies are required to monitor the reputation of artists. The Company is attentive and collects public opinions, the relevant information has been analysed in a timely manner, comprehensive and genuine information has been delivered to the general public on timely basis according to the Company's policy and process.

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 division conducts self-assessment and confirms the internal control status of the business division for which it is responsible. The internal audit 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 division, 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, monitors that the management has implemented appropriate measures, assesses objectively the effectiveness of risk management and internal control systems of the Company and reports 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 various business and functional management teams, 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, 2018, 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.

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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, 2018 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit and audit related services*	12,930
Non-audit services related to tax consultation	1,039
Total	13,969

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, 2018 in connection with the the acquisition of New Classics Media and the service fee for the audit of the Group's 2018 consolidated financial statements.

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**") as the other joint company secretary to assist Mr. Zhao to discharge his duties as a company secretary of the Company. Ms. Lai has closely communicated with Mr. Zhao during the year ended December 31, 2018.

For the year ended December 31, 2018, 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.

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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.

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.

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 the 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).

MEMORANDUM AND ARTICLES OF ASSOCIATION

There were no significant changes in the constitutional documents of the Company during the Relevant Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

This report provides information on the Group's environmental, social and governance ("ESG") performance for the year of 2018. It should be read in conjunction with this annual report, in particular the Corporate Governance Report contained in this annual report, as well as the sections headed "Corporate Governance", etc. on the Company Website.

SCOPE OF THIS REPORT

This report aims to represent our management measures and practices in terms of product responsibilities, environmental protection, employee care, supply chain management, operations in compliance and community investment in 2018. We will focus on ESG issues that are of interest to stakeholders.

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. There are no significant changes in the scope of this report from that of the Environmental, Social and Governance Report 2017 independently published on May 18, 2018[1].

This report has complied with all the "comply or explain" provisions and has included explanations for disclosure provisions which are not applicable to us.

ESG STRATEGIES

As a leading online literature platform, we are fully aware that improvement of environmental and social performance can have a material impact on the sustainability of our operations. We have integrated the ESG related risks and opportunities into our corporate operation strategy as guidance on daily business operations.

We have established the ESG management system consisting of the board of directors (the "Board"), the senior management and the working group. The Board supports the Company's commitment to fulfilling corporate social responsibility, regularly reviewing relevant issues and approving annual reports. The senior management reports relevant risks and opportunities to the Board, and provides confirmation of the effectiveness of the ESG system. And the working group is responsible for implementing the strategies of the Board, conducting related management and reporting work and reporting to the senior management on the progress of the work.

We embrace the principle of sustainability, provide employees with favorable working environment, contribute to the society, and uphold development principle of integrity and regulatory compliance. We have established internal response mechanism to assess our ESG performances as our key business performance indicators.

[1] We have completed the acquisition of New Classics Media Holdings Limited (新麗傳媒控股有限公司) in 2018. As the acquisition was completed at the end of the reporting period, the ESG reporting information collection system of New Classics Media Holdings Limited was still in the process of establishment as of the report disclosure date, so it has not been included in the disclosure scope of this report and will be included in the disclosure scope of the Environmental, Social and Governance Report 2019.

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STAKEHOLDER COMMUNICATION

Our key stakeholders include shareholders and investors, regulators, industry associations, writers, readers, employees, suppliers and community. We emphasize on stakeholder communication and have multiple effective communication channels to understand their expectations and needs on its ESG performance, which serve as important reference when developing our ESG strategy.

After discussions with the management and combined with the stakeholder communication result and the actual operations, we confirm the following ESG issues that have material impact on us and will discuss our actions on a case-by-case basis in this report:

1. Product responsibilities

- Promote protection of intellectual property ("IP") rights
- Provide quality and healthy works
- Cultivate excellent writers
- Protect users' rights, interests and privacy

2. Environmental protection

- Practise green operation, protect the environment and conserve resources

3. Workplace

- Provide training and development opportunities
- Create favourable working environment
- Promote occupational health and safety

4. Supply chain management

- Regulate procurement activities to reduce environmental and social risks in the supply chain

5. Anti-corruption

- Uphold operations in compliance with laws and regulations and abide by business ethics

6. Community investment

- Engage in public welfare activities to improve positive social benefits

Our ESG strategy requires the participation of all of our product platforms and employees, and support from the industry and society. We will continue to place more emphasis on the role of ESG strategy in the Company's development, encourage all stakeholders to participate and supervise the implementation of our ESG strategy.

Going forward, we will continue to enhance our corporate governance system and integrate environmental and social considerations into our operations. We will closely cooperate with our stakeholders with the aim of promoting sustainable development of the Company and the industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 PRODUCT RESPONSIBILITIES

We comply with the Copyright Law of the People's Republic of China, Regulation on Internet Information Service, Law of the People's Republic of China on the Protection of Consumer Rights and Interests, Cybersecurity Law of the People's Republic of China and other applicable laws and regulations on IP rights, content review, consumer rights and interests protection and privacy protection, and fully implement product responsibilities and legal obligations of the Company.

PROMOTE PROTECTION OF IP RIGHTS

As a copyrighted digital reading platform and original online literature incubator that pioneers the industry, we stress the importance of the protection of IP rights.

We have established a dedicated IP team that is responsible for the internal management of copyright and combating copyright infringement. We have also established a litigation and right protection team to combat piracy and infringement of copyrights, so as to prevent interests of the Company and writers from being violated.

We have adopted an "Integrated Copyright" management mode to enforce our copyright development and protection, which enables us to manage the otherwise fragmented work such as copyright achievement and license in systematic data-processing way, thus improving online literature copyright management efficiency and providing online writers and partners with timely and professional legal support and comprehensive copyright services.

Our IP rights protection work has also been highly recognized by the national judicial authorities and government departments. In 2018, several cases of IP protection that we handled were selected in the "Top Ten IP Rights Cases of Chinese Courts in 2017 (2017年中國法院十大知識產權案件)", the "Top Ten Typical Cases of IP Rights Protection of National Prosecutors in 2017 (2017年度全國檢察機關保護知識產權十大典型案例)" and the "Top Ten Cases of National Combating Infringement and Piracy in 2017 (2017年度全國打擊侵權盜版十大案件)" respectively.

Besides, we actively participate in public affairs and events related to copyrights protection, including participating in copyrights protection seminars and establishment of industry standards.

PROVIDE QUALITY WORKS

The information and content of our product lines are subject to the scrutiny of our content review team following relevant review standards and procedures that adopt both auto control and manual review, so as to remain healthy and positive, prevent and eliminate the publication of unhealthy information including information that violates national laws, regulations or morality, vulgar information, or information that plagiarizes or infringes on copyright.

The content review team regularly participates in the online literature editing business training and continuing education by the Ministry of Culture and the Administration of Press and Publication to improve the content management level and strictly control the quality of the platform works. At the same time, the team has been paying attention to the changes in the requirements of the regulatory authorities, actively participating in the training hosted by the Office of the Central Cyberspace Affairs Commission and the Cyberspace Administration of China, strictly implementing the content supervision requirements such as "Guiding Opinions on Promotion of Internet Literature Healthy Development (關於推動網絡文學健康發展的指導意見》)", and actively creating a clear network environment.

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For all of our websites, we must edit and preview some chapters before putting the works on the websites, and strictly control the quality of the works. The serialized works and other information on the website are subject to automatic screening and filtering mechanism such as automatic key words filtering, off-topic posts prevention system filtering, and monitoring and filtering of abnormal content posting, in addition to manual routine review mechanism and manual random inspection mechanism, so as to prevent unhealthy and malicious information to the extent possible. In order to improve the efficiency of the review, we have established a "Writer Credit System (作家信用體系)" to classify and manage the writers of different risk levels by establishing a writer's security risk rating system. We place high-risk marks on writers who have uploaded illegal information, and writers with higher ratings of risk will trigger the mechanism of full-content review or mandatory review before publication.

In 2018, Shanghai Xuanting Entertainment Information Technology Co., Ltd. (上海玄霆娛樂信息科技有限公司), one of our subsidiaries, was awarded the "2017-2018 National Key Culture Export Enterprise (2017-2018年度國家文化出口重點企業)" by the Ministry of Commerce, the Ministry of Culture and the National Radio and Television Administration and other authorities. We will continue to fulfill our corporate cultural communication responsibilities, promote the fine traditional culture of the Chinese nation, and enhance our internationally cultural competitiveness.

CULTIVATE EXCELLENT WRITERS

We have established robust and comprehensive training system for veteran, intermediate and novice writers. In terms of online training, we embrace the new e-learning pattern by employing our own platforms, new media etc. and inviting experienced editors to share writing tutorials; in terms of off-line training, we have arranged various online writer trainings, such as the "China Literature Star College Network Writers Seminar"; we also organize training jointly with other institutions, such as the "Advanced Seminar for Network Writers in Guangdong on Further Learning and Practising the Ideology of Socialism with Chinese Characteristics in the New Era of Xi Jinping" jointly organized with the writers' association of Guangzhou. In addition, we also continue to organize the writers to participate in the training hosted by national and provincial and municipal writers' associations, Lu Xun Literature Institute, the Central Committee of the Communist Youth League and other authorities to actively promote the growth of writers. In 2018, we trained hundreds of writers off-line.

RESPOND TO USERS' FEEDBACKS

We place great emphasis on every complaint and suggestion from our users. To better respond, we have set up a set of complaint handling mechanism where front-line employee is responsible for understanding the situation and preliminary handling, second-line employee is responsible for identifying and resolving the issue, and call-back employee is responsible for customer satisfaction survey and follow-ups. For major grievances, we engage relevant departments of the Company to conduct investigation and make a summary based on the result for the purpose of improving internal procedures and deterring similar incidents from occurring.

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We also welcome users to provide feedbacks on bad information and work with us to maintain the healthy and positive content of our major websites. Users can report bad information through the complaints hotline, the complaints page and the complaints portal of the function pages. We will respond to the users' complaints in a timely manner, review and properly resolve all of them, moreover, reply on the resolving results will be sent to the users via SMS or system push.

PROTECT USERS' PRIVACY

To protect the privacy of users' private data is one of our important missions. We have incorporated applicable legal and regulatory requirements on privacy protection into our internal compliance policies and do our utmost to protect the users' personal information through reasonable and effective information security technology and management process. In all aspects of product or service development, we integrate legal, product, design and other factors into the concept of privacy protection, and protect user's information of all aspects in the process of information collection, transmission, storage, demonstration and retrieval.

To ensure that our users understand how we protect their personal information, we publish our privacy protection policies in a concise and clear language on our product websites and in-app products. We are also very concerned about the information protection of underage users and call on guardians and schools to make the right guidance and work with us to create a safe and healthy online environment for minors.

2 ENVIRONMENTAL PROTECTION

GREEN OPERATION

We recognize the importance of environmental protection and conservation of resources for our sustainable development. To fulfill this concept, we comply with all applicable environmental protection laws and regulations including Environmental Protection Law of the People's Republic of China, incorporate office resources and practise energy conservation and environmental protection into the management regulations, and have implemented a number of energy-saving, water-saving and emission reduction measures to enhance energy efficiency, save energy and water, as well as reduce emissions to the extent possible:

- Prioritize on purchasing and using energy-saving office facilities;
- Adopt environmental friendly vehicles and improve vehicles' maintenance and management;
- Regular maintenance on water consuming equipment and avoid leakage;
- Put up energy and water saving signs to improve employee environmental awareness.

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ENVIRONMENTAL KEY PERFORMANCE INDICATORS ("KPI")

Below are the environmental KPI of the Company. Unless otherwise specified, such KPIs cover our office buildings in Beijing, Shanghai, Suzhou, Wuhan, Langfang and Hong Kong. Except for the addition of the office property in Hong Kong and Wuhan, the scope of disclosure was consistent with that of 2017. In 2018, our greenhouse gas ("GHG") emissions, total energy consumption and running water consumption increased due to the relocation and renovation of three office properties in Beijing and Langfang and the addition of new office property in Hong Kong.

1) Emissions

	2018	2017
Total GHG emissions (Scopes 1 and 2) (tonnes)	**1,550.54**	1,294.79
Direct GHG emissions (Scope 1) (tonnes)	**104.41**	129.63
Including: Petrol (tonnes)	**104.41**	129.63
Energy indirect GHG emissions (Scope 2) (tonnes)	**1,446.13**	1,165.16
Including: Electricity purchased (tonnes)	**1,446.13**	1,165.16
Total GHG emissions per employee (tonnes per employee)	**1.00**	0.87
Total GHG emissions per floor area (tonnes per square metre)	**0.03**	0.07
Total non-hazardous waste (tonnes)	**96.79**	107.97
Total non-hazardous waste per employee (tonnes per employee)	**0.06**	0.07

Note:

1. The emissions arising from our operation is limited, mainly includes domestic wastewater. Domestic wastewater has no material impact as it is discharged into municipal pipelines, so KPI A1.1 (types of direct emissions and respective emissions data) is not disclosed in this report.

2. Due to the business nature, our significant GHG emissions are direct GHG emissions derived from petrol consumption (Scope 1) of vehicles for business and shipping purposes and energy indirect GHG emissions derived from purchased electricity consumption (Scope 2).

3. The GHG inventory includes carbon dioxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

4. The hazardous waste arising from our operation is limited, mainly includes waste toner cartridge and waste ink cartridge from printing equipment at office buildings. Waste toner cartridge and waste ink cartridge have no material impact as they are collected and disposed of by printing suppliers, so KPI A1.3 total hazardous waste produced is not disclosed in this report.

5. Non-hazardous waste arising from our operation mainly includes domestic waste, disposed devices and waste books. Domestic waste is centrally disposed by the property management company. Disposed devices are recorded and handled by the administration department for recycling or disposing. Waste books are recycled and reused. To further reduce non-hazardous waste, we adopt the paperless office platform to reduce paper photocopy and printing, and encourage practices of printing on both sides and reuse of waste paper, so as to avoid unnecessary paper waste.

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2) Use of Resources

	2018	2017
Total energy consumption (MWh)	**2,330.53**	2,120.66
Direct energy consumption (MWh)	**427.03**	530.20
Including: Petrol (MWh)	**427.03**	530.20
Indirect energy consumption (MWh)	**1,903.50**	1,590.46
Including: Electricity purchased (MWh)	**1,903.50**	1,590.46
Total energy consumption per employee (MWh per employee)	**1.50**	1.42
Total energy consumption per floor area (MWh per square metre)	**0.04**	0.12
Running water consumption (tonnes)	**20,980.32**	17,712.72
Running water consumption per employee (tonnes per employee)	**20.43**	13.00

Note:

1. Total energy consumption is worked out by the data of electricity and petrol with reference to the Annex I Fossil Fuel Coefficients in the "Guidelines of the Greenhouse Gas Emissions Accounting and Reporting for the Public Building Operation Enterprises" issued by the National Development and Reform Commission of China.

2. Our water resources come from municipal water supply. Water fees in Suzhou office buildings, Wuhan office buildings, the Beijing National Convention Center office building and the Beijing Pangu Building are borne by the property management companies, so data on running water consumption and running water consumption per employee reported here only cover other office buildings in Shanghai, Hong Kong, Langfang and Beijing. The office buildings of Tianjin Zhongzhi Bowen Book Co., Ltd. start paying running water charges by themselves with effect from the current year, their running water consumption quantity is included in the scope of reporting, resulting in an increase in running water consumption.

3. KPI A2.5 total packaging material used for finished products is not applicable to us, as we do not use packaging materials during operation.

4. As we do not use other environmental and natural resources during operation, the aspect of A3 environmental and natural resources and A3.1 description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them are not applicable to us, so they are not disclosed in this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3 WORKPLACE

Employee Training

Improvement of employee competency is key to safeguarding the achievement of enterprise development. We put premium on employee training and have invested adequate resources and energy to create various internal and external training opportunities. Employees are encouraged to involve in these trainings taking their actual needs into consideration. In 2018, we provided thousands of trainings to all employees.

We established China Literature Academy which upholds the slogan of "Learning to be a better self". We engage a wide array of external experts on one hand and build in-house trainer team on the other hand, so as to offer different work and life training programs catering to needs of employees at each stage of career:

Induction: to acquaint employees with rules, regulations and corporate culture of the Company, we provide induction for every new employee. In particular, we adopt mentorship for fresh graduates, enabling them to quickly adapt to the Company's culture and working environment with the help of the experienced employees and managers assigned as career mentor.

Specialized training: according to the professional capacity of each employee and communications with each profession access committee, we set up the "Full-time Master Club (全職高手俱樂部)" to organize corresponding professional trainings and emphasize the career development of professionals.

General training: to enhance employee competency in an all-round manner, we arrange "Du Lala's Promotion Plan (杜拉拉升職計)", a workplace skillset training to help them obtain the general skills that facilitate their job performing.

Management training: we arrange management training to enhance employees' management skills. We have established the "Nine Tactics of Civil Leader (文將九訣)", a leadership quality model and built up the "Civil Leader Navigation Project (文將航海計劃)", a leadership training system, to clarify the direction of leadership for management.

Recruitment

Our employment practice complies with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, Provisions on Prohibition of Child Labor and other applicable laws and regulations (including but not limited to those which prohibit child and forced labor). We verify the education background, job experience and professional background of the candidates to ensure that we hire suitable candidate in accordance with the job requirements. We uphold the principle of equality during the recruitment process and do not discriminate on the grounds of gender, age, nationality, ethnicity, religious belief, sexual orientation or family status, etc.

In 2018, we were titled "Extraordinary Employer (非凡僱主)" by liepin.com, "Employer loved by Chinese University Students (中國大學生喜愛僱主)" by 51job.com and "New TOP Employer (新銳TOP僱主)" by lagou.com.

Compensation

We offer competitive compensation benefits to attract and retain talent. The bonus is performance-based and ensured to reward employees with high performance.

Benefits

We hope that employees can strike a good work-life balance, and maintain a leave scheme that allows them to enjoy statutory leaves and holidays including annual leave, marriage leave, funeral leave, maternity leave, paternity leave, sick leave, etc. Employees are also entitled to extra annual leave that accrues based on length of service.

Besides, we offer commercial health and accident insurance to employees apart from basic social insurance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We show our care for the well-being of our employees by various means. For example, we offer various welfare subsidies, festival gifts or bonus; celebrate special occasions of our employees (e.g. wedding, childbirth, birthday, etc.); carry out employee activities (e.g. festival activities, tabloid sports activities, team building activities and family day activities); set up various associations (e.g. basketball association, football association, badminton association, photographic association, fitness club, etc.); provide annual medical checkups for parents of employees that serve for more than 3 years, and so forth.

Working Hours

We adopt standard working hour system which provides that an employee should work 8 hours per day. Employees must be compensated or given days-off for overtime work after internal approval.

Promotion

Advocating the principle of "Progressive promotion based on employee application depending on practice areas", employees may apply for promotion, if they satisfy the requirements. The promotion review process is fair, open and transparent and our employees will receive feedbacks and opinions. To cater to different development needs, we set up management and expertise career channels with robust career path.

Employee Departure

We handle employee departure (whether by resignation or dismissal) strictly in accordance with labor contracts and applicable laws and regulations. We arrange an exit interview with each of the departing employees to understand the reasons for his/her departure and welcome any suggestions for improvement of the Company.

Occupational Health and Safety

In strict compliance with all applicable laws and regulations on safety and health including Law of the People's Republic of China on Prevention and Control of Occupational Diseases, we encourage healthy work style, strive to provide a comfortable working environment for our employees and ensure their mental and physical health and safety.

There are well-established security and fire prevention systems at workplace. In addition, we make efforts to ameliorate working environment and conduct regular disinfection and cleaning.

We arrange annual medical checkups for employees and organize a range of fitness sessions such as traditional Chinese health therapy and neck and shoulder massage. In 2018, we held special health activities such as "Shanghai Eminent Doctors (滬上名醫)" and " Lose Weight (閱文人瘦)". Such activities enriched our corporate culture and strengthened employees' awareness of healthy life and work style.

4 SUPPLY CHAIN MANAGEMENT

We attach supreme attention to managing environmental and social risks of our supply chain. We have formulated relevant policies which provide that our procurement employees must adhere to the principle of being fair, equal and open and follow the 8 Don'ts[2] code of conduct. For external suppliers, we actively disseminate the values of honesty, integrity, respect and responsibility among them. We focus on whether they operate in conformity with laws and regulations, and have formulated supplier code of conduct which require the suppliers to:

- Comply with laws and regulations on anti-trust, fair trade, anti-corruption, environmental protection, etc. of the territory they operate in;
- Comply with business practices, uphold integrity and honesty, protect IP rights, respect confidentiality, and commit no commercial bribery;
- Deliver on the commitment for human rights and work equality, prohibit use of child and forced labor, and provide free of harassment and discrimination working environment;
- Provide safe and healthy working environment and abide by all applicable laws and regulations on safety and health.

We normally ask for price quotations from at least three vendors. Other factors including service quality and technical capabilities of the vendors will be taken into consideration when selecting vendors. Suppliers are subject to background check on registration record at the industrial and commercial bureau, legal conformity, authorization, etc. before being approved. Relevant documents will be recorded when conducting purchasing activities.

To ensure service quality of suppliers, we collect opinions from departments that use or maintain purchased services and evaluate suppliers' performance in terms of delivery time, product quality, service quality, etc. as meaning reference for procurement. For suppliers with unsatisfactory performance, we may discuss with them on the remedial steps to help them improve their service quality. Suppliers that practise bribery, breach confidentiality, or fail to be honest will be disqualified and put on the blacklist of the Company.

[2] Don't leak Company's secrets or commercial secrets; don't make comments or opinions that may cause adverse impact on the Company; don't designate vendors; don't be compensated from procurement activities; don't accept invitation to meals or entertainments in relation to procurement; don't take profits and commissions from vendors; don't reimburse expenses from suppliers that shall be personally borne; don't make requests irrelevant to work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5 ANTI-CORRUPTION

We implement the strictest laws and ethical standard throughout the operation and comply with Anti-Unfair Competition Law of the People's Republic of China, Company Law of the People's Republic of China and other applicable laws and regulations combating bribery, extortion, fraud and money laundering, and adopt an attitude of zero tolerance in relation to corruption in any form.

We prohibit employees from commitment of bribery and breach of law in any form. If any of these activities, which are regarded as red line, are spotted, the employee found and proven to have committed such activity shall be subject to immediate dismissal. In the event that the activity violates any relevant laws or regulations and meets the standard of case filing, the employee shall be transferred to the judicial department. We also maintain a high level of integrity and professional ethics during the cooperation with our suppliers, and entered into the Statement against Commercial Bribery with them. We will immediately terminate the cooperation with them in case of any breach.

We incorporate the anti-fraudulent propaganda into the training for new employees, and continue to carry out special risk control trainings covering variouis business units, to raise employees' awareness of anti-fraud and risk control. We provide multiple whistleblowing channels and how we should deal with such concerns. We also encourage employees to lodge reports on any suspected breach of the red line and secure the complete confidentiality of reported content and the identity of the whistleblowers.

When a report is received or any activity in breach of the red line is detected, the risk control and internal audit department will handle the independent investigation immediately. After an investigation has been completed, the result will be reported to the internal audit committee for resolution.

6 COMMUNITY INVESTMENT

We are committed to creating social benefits and giving back to the society in different ways in the course of business development. In 2018, leveraging on the advantages of our platform in cultural communication, we set up the Public Welfare Committee to plan the direction of public welfare projects, project scale and resources, to maximize the value we create for society.

In 2018, we organized the following activities:

1) REALISTIC ESSAY CONTEST

Well-known original literature websites of our product lines jointly hosted the 3rd Realistic Essay Contest with the theme of "Write about Outlook (寫一種展望)", aiming to explore excellent works which embody the spirit of the times and express the feelings of the country under the background of the 40th anniversary of Reform and Opening. A total of 11,800 pieces of works were collected for the event, with more than 10,200 participants. Relying on the continuous holding of the realistic essay contest, we use realist online literature and its diverse derivative content as a carrier to help promoting socialist cultural and ethical progress. To further enhance the social benefits of online literature, we also held the China Literature realism thousand miles training program entitled "Creating Reality, Reading Extensively (創現實　閱萬里)" simultaneously with the contest, to nurture new force for the sustainable development of realism works.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2) 2018 YOUTH VOLUNTEER · CHINESE DREAM - "VOLUNTEER LITERATURE (志願文學)" INTERNET WRITERS GO TO THE RURAL AREAS

In April 2018, we co-organized the "2018 Youth Volunteer · Chinese Dream - "Volunteer Literature" Internet Writers Go to the Rural Areas" with the Youth Volunteer Action and Guidance Center under the Communist Youth League Central Committee and the China Writers Association. Our 33 online literature writers and 6 online literature editors went to the Tibet Autonomous Region, Xinjiang Uygur Autonomous Region and other places to visit 20 rural sites such as minority autonomous counties and key villages under the poverty relief program, and to experience and write about grassroots life. By organizing this activity, we widely spread the sparks of volunteer literature and volunteer culture, fulfilled the social responsibility as a cultural communication enterprise, and injected great realistic creative power into Chinese online literature sector, and revealed the contemporary online literature writers' enthusiasm and care for our society, livelihood and public welfare.

3) SUPPORT ONLINE LITERATURE EDUCATION

We actively procure school-enterprise cooperation, promote online literature innovation, and drive the healthy development of online literature. In 2018, we co-sponsored with (among others) Guangdong University of Foreign Studies, the University of Hong Kong, the Open University of Hong Kong and the University of Science and Technology of Macao, to jointly establish the China Literature - Guangdong, Hong Kong and Macau Creative Writing Base, aiming at cultivating more emerging writers and reserve talented writers.

4) "SHOW KINDNESS, PROMOTE READING (點滴溫暖,閱在其中)" DONATION

In November 2018, we organized a one-week donation "Show Kindness, Promote Reading" in Shanghai, Beijing and Suzhou offices. We received a total of over 2,000 pieces of donated apparels and stationeries, which were sent to two impoverished mountainous areas in Yunnan and Sichuan Province.

5) "EXTRAORDINARY PUBLIC WELFARE (益義非凡)" CHARITY SALE

We set up November 8th as the China Literature Welfare Day, and launched the "Extraordinary Public Welfare" charity sale in Beijing and Shanghai offices simultaneously. We raised a total of RMB7,164 in activities of about 2 hours, all of the charitable proceeds were donated to the Shanghai Red Cross. We also held "Benefit Reading (益起閱讀)", an audio recording session on site in our activities, where our employees recited Chinese Traditional Mythology Stories and uploaded them to "lrts.me (懶人聽書)" App under the album entitled "China Literature Bedtime Story (小閱睡前故事)", to promote reading among minors.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of China Literature Limited
(incorporated in the 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 100 to 227, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- 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, 2018, 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.

INDEPENDENT AUDITOR'S REPORT

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.

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
- Fair value measurement of financial assets at fair value through profit or loss — investments in redeemable shares of associates
- Fair value measurement of financial liabilities at fair value through profit or loss — contingent consideration payable
- Impairment assessment of television series and film rights

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill Refer to Notes 2.9, 2.11, 4(a) and 16 to the consolidated financial statements As at December 31, 2018, the goodwill of the Group amounted to RMB10,653.3 million, which were arisen from business acquisitions in the previous and current years. The Group's goodwill were allocated to two cash-generating units ("CGUs"), namely (i) Online Business and (ii) Acquired TV and Film Business. The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill was recognised as at December 31, 2018. Value-in-use ("VIU") calculations were used to determine the appropriate recoverable amounts of the CGUs. We focused on this area due to the magnitude of the carrying amounts of the goodwill as at December 31, 2018, and the fact that significant judgements were required by management when selecting key assumptions to be adopted in the valuation models.	We assessed the competency, capability and objectivity of the independent external valuer that engaged by the Group for performing the goodwill impairment assessments by assessing its qualifications, relevant experience and relationship with the Group. We assessed the appropriateness of using VIU calculations as valuation model for the impairment assessments of goodwill. The VIU calculations use cash flow projections based on business plans approved by management. We assessed the key assumptions adopted in the VIU calculations including annual growth rates and gross margin by comparing these assumptions against the historical results of the CGUs, the approved budgets of the CGUs and the Group's business plan. We also assessed certain key valuation assumptions including discount rate with the involvement of our internal valuation experts. We also evaluated management's sensitivity analysis on the key assumptions to which the valuation models are the most sensitive. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found management's impairment assessments of goodwill are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial assets at fair value through profit or loss — investments in redeemable shares of associates Refer to Notes 2.12, 3.3, 4(g) and 19 to the consolidated financial statements As at December 31, 2018, the Group had financial assets at fair value through profit or loss, of which investments in redeemable shares of associates of approximately RMB444.1 million were measured based on significant unobservable inputs and classified as "Level 3 financial instruments". The Group has engaged an independent external valuer for performing the fair value valuation of investments in redeemable shares of associates as at December 31, 2018. We focused on this area due to the high degree of judgement required in determining the respective fair values of investments in redeemable shares of associates, 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 of the associates) in the valuation.	We assessed the competency, capability and objectivity of the independent external valuer that engaged by the Group for performing the fair value valuation of investments in redeemable shares of associates by assessing its qualifications, relevant experience and relationship with the Group. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used. We tested the valuation of investments in redeemable shares of associates as at December 31, 2018 by evaluating the underlying assumptions including IPO probability of the associates, etc., based on our industry knowledge as well as the recent equity transactions completed by the associates. We independently tested the accuracy of mathematical calculation applied in the valuation models. Based on the above procedures we have performed, we found the valuation methodology of the investments in redeemable shares of associates is acceptable and the assumptions made by management are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial liabilities at fair value through profit or loss — contingent consideration payable Refer to Notes 3.3, 4(d), 18 and 37 to the consolidated financial statements As at October 31, 2018, the Group recognised financial liability at fair value through profit or loss in relation to the contingent consideration payable for acquiring New Classics Media Holdings Limited (referred to as the "New Classics Media" and previously known as "Qiandao Lake Holdings Limited") of approximately RMB3,301.6 million. For the period from November 1, 2018 to December 31, 2018, the change in the fair value amounting to RMB108.9 million was charged to "other gains, net" in the consolidated statement of comprehensive income. As at December 31, 2018, the financial liability at fair value through profit or loss in relation to the contingent consideration payable for acquiring New Classics Media amounted to RMB3,144.6 million. The Group has engaged an independent external valuer for performing the fair value valuation of contingent consideration payable as at December 31, 2018. We focused on this area due to the high degree of judgement required in determining the fair value of the contingent consideration payable using Monte Carlo Simulation Method. This valuation method required the use of certain key assumptions including growth rate and volatility of the net profit of New Classics Media.	We assessed the competency, capability and objectivity of the independent external valuer that engaged by the Group for performing the fair value valuation of contingent consideration payable by assessing its qualifications, relevant experience and relationship with the Group. We involved our internal valuation experts to discuss with management and the valuer and assess the appropriateness of valuation methodology and assumptions used (e.g. growth rate and volatility of the net profit of New Classics Media) by comparing these assumptions against the historical results, the approved budget and the business plan of New Classics Media. We also independently assessed the reasonableness of the valuation result by comparing it with the result calculated using on our in-house valuation model. Based on the above procedures we have performed, we found the valuation methodology of the contingent consideration payable is acceptable and the assumptions made by management are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of television series and film rights Refer to Notes 2.10, 4(b) and 23 to the consolidated financial statements As at December 31, 2018, the Group held significant amounts of television series and film rights amounting to RMB2,857.1 million, including adaption rights and scripts, television series and film rights under production and completed products of approximately RMB709.5 million, RMB1,416.2 million and RMB731.4 million, respectively. An impairment provision of RMB0.3 million in respect of television series and film rights had been recognised during the year ended December 31, 2018 against these carrying amounts. We focused on this area due to the fact that management applied significant judgements in assessing the impairment of these television series and film rights. In making such assessment, management considered all possible factors that may affect the future production and distribution plans of television series and film rights, the available selling price or pre-order price of television series and film rights, discount rate and the current market environment, and exercised judgement in developing its expectation for the future cash flows from these television series and film rights.	We assessed whether the accounting policy of the Group in respect of impairment of television series and film rights was reasonable by comparing with relevant accounting standards and benchmarking with industry practice. We tested, on a sample basis, management's recoverability assessment of the television series and film rights, based on the significance of the balance of each television series and film right. For each selected sample of adaption rights and scripts and television series and film rights under production, we (i) examined the related agreements of the purchased adaption rights and scripts to check their stipulated period of validity; (ii) discussed with management to understand their future production and distribution plans; and (iii) assessed the reasonableness of key assumptions used in the cash flow forecast for impairment assessment by comparing the estimated selling price and related costs of the television series and film rights to the available price of the television series, film box office receipts, production and distribution costs of similar television series and films released and the pre-order price offered by the customers if available.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	For each selected sample of television series completed, we examined the license agreements entered into by the Group with respective TV stations and online platforms to validate the estimated selling price of television series. For each selected sample of television series completed with no associated license agreements entered into, we compared the estimated selling price of these television series to the available price of similar television series. For each selected sample of film rights completed but yet to be released, we compared the estimated selling price of these film rights to film box office receipts of similar films released and actual box office receipts if available. We also assessed the reasonableness of the discount rate used in the cash flow forecast for impairment assessment and tested the accuracy of mathematical calculation of the impairment assessment. Based on the above procedures we have performed, we found the assumptions adopted and judgment applied by management in the impairment assessments of television series and film rights were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

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.

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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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 18, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenues	6	**5,038,250**	4,095,066
Cost of revenues	7	**(2,480,271)**	(2,019,626)
Gross profit		**2,557,979**	2,075,440
Interest income	11	**200,817**	103,787
Other gains, net	9	**338,910**	110,723
Selling and marketing expenses	7	**(1,293,107)**	(965,121)
General and administrative expenses	7	**(726,470)**	(684,247)
Net reversal of/(provision for) impairment losses on financial assets	3.1	**36,822**	(26,019)
Operating profit		**1,114,951**	614,563
Finance costs	10	**(148,489)**	(35,170)
Share of net profit of associates and joint ventures	17	**111,339**	66,337
Profit before income tax		**1,077,801**	645,730
Income tax expense	12	**(165,403)**	(83,038)
Profit for the year		**912,398**	562,692
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of an associate		**(181)**	—
Currency translation differences		**430,076**	(150,130)
Total comprehensive income for the year		**1,342,293**	412,562
Profit attributable to:			
– Equity holders of the Company		**910,636**	556,129
– Non-controlling interests		**1,762**	6,563
		912,398	562,692
Total comprehensive income attributable to:			
– Equity holders of the Company		**1,340,538**	405,999
– Non-controlling interests		**1,755**	6,563
		1,342,293	412,562
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	13(a)	**1.01**	0.74
– Diluted earnings per share	13(b)	**1.00**	0.72

The notes on pages 107 to 227 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**47,696**	36,050
Intangible assets	16	**12,141,157**	4,501,097
Investments in associates and joint ventures	17	**680,918**	342,314
Investments in redeemable shares of associates	2.2, 19	**—**	267,000
Other investments	26	**—**	25,128
Derivative financial assets	2.2, 19	**—**	37,594
Financial assets at fair value through profit or loss	2.2, 19	**444,137**	—
Deferred income tax assets	20	**95,559**	20,326
Prepayments, deposits and other assets	21	**147,501**	22,868
Term deposits	27	**—**	450,860
		13,556,968	5,703,237
Current assets			
Inventories	22	**129,693**	222,486
Television series and film rights	23	**2,857,056**	—
Financial assets at fair value through profit or loss	19	**26,804**	—
Trade and notes receivables	25	**1,830,396**	759,983
Prepayments, deposits and other assets	21	**609,900**	295,812
Term deposits	27	**481,561**	653,420
Cash and cash equivalents	27	**8,342,228**	7,502,430
		14,277,638	9,434,131
Total assets		**27,834,606**	15,137,368
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	32	**649**	569
Shares held for RSU scheme	32	**(21)**	(23)
Share premium	32	**16,456,555**	12,143,464
Other reserves	33	**898,150**	309,232
Retained earnings		**1,048,145**	167,954
		18,403,478	12,621,196
Non-controlling interests		**11,567**	41,514
Total equity		**18,415,045**	12,662,710

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018

		As of December 31,	
		2018	2017
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**380,000**	475,000
Deferred income tax liabilities	20	**449,808**	193,907
Deferred revenue	6	**39,277**	41,585
Financial liabilities at fair value through profit or loss	2.2, 18	**1,954,165**	—
		2,823,250	710,492
Current liabilities			
Borrowings	29	**1,385,445**	—
Trade payables	30	**1,131,067**	656,953
Other payables and accruals	31	**1,818,151**	657,725
Deferred revenue	6	**1,005,319**	414,797
Current income tax liabilities		**65,375**	34,691
Financial liabilities at fair value through profit or loss	2.2, 18	**1,190,954**	—
		6,596,311	1,764,166
Total liabilities		**9,419,561**	2,474,658
Total equity and liabilities		**27,834,606**	15,137,368

The notes on pages 107 to 227 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 100 to 227 were approved by the Board of Directors on March 18, 2019 and were signed on its behalf:

Wu Wenhui	**Liang Xiaodong**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of January 1, 2018	569	12,143,464	(23)	309,232	167,954	12,621,196	41,514	12,662,710
Comprehensive income								
Profit for the year	—	—	—	—	910,636	910,636	1,762	912,398
Other comprehensive income								
– Share of other comprehensive loss of an associate (Note 17)	—	—	—	(181)	—	(181)	—	(181)
– Currency translation differences	—	—	—	430,083	—	430,083	(7)	430,076
Total comprehensive income for the year	—	—	—	429,902	910,636	1,340,538	1,755	1,342,293
Transaction with owners								
Share-based compensation expenses (Note 34)	—	—	—	152,227	—	152,227	—	152,227
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax (Note 37)	80	4,375,333	—	—	—	4,375,413	—	4,375,413
Non-controlling interests arising on business combination (Note 37)	—	—	—	—	—	—	(1,770)	(1,770)
Transfer of vested RSUs, sale and repurchase of vested RSUs	—	(62,242)	2	—	—	(62,240)	—	(62,240)
Acquisition of non-controlling interests (Note 33)	—	—	—	(23,656)	—	(23,656)	3,781	(19,875)
Deemed disposal of a non-wholly owned subsidiary	—	—	—	—	—	—	(33,713)	(33,713)
Profit appropriations to statutory reserves (Note 33)	—	—	—	30,445	(30,445)	—	—	—
Transactions with owners in their capacity for the year	80	4,313,091	2	159,016	(30,445)	4,441,744	(31,702)	4,410,042
As of December 31, 2018	649	16,456,555	(21)	898,150	1,048,145	18,403,478	11,567	18,415,045

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Attributable to equity holders of the Company							
	Share capital 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 34)	—	—	—	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 28)	—	—	—	76,360	—	76,360	—	76,360
Profit appropriations to statutory reserves (Note 33)	—	—	—	32,062	(32,062)	—	—	—
Others	—	—	—	2,616	—	2,616	—	2,616
Transactions with owners in their capacity for the year	138	6,832,435	(23)	248,484	(32,062)	7,048,972	(7,106)	7,041,866
As of December 31, 2017	569	12,143,464	(23)	309,232	167,954	12,621,196	41,514	12,662,710

The notes on pages 107 to 227 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

		Year ended December 31,	
		2018	2017
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash provided by operations	**38**	**1,047,598**	963,611
Income tax paid		**(129,920)**	(77,901)
Net cash flows generated from operating activities		**917,678**	885,710
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	**37**	**(518,477)**	(7,693)
Placement of term deposits with initial term of over three months		**(8,000)**	(1,128,754)
Receipt from maturity of term deposit with initial term of over three months		**639,620**	—
Payments for financial assets at fair value through profit or loss		**(71,589)**	—
Payment for short-term investments		**—**	(2,881,200)
Proceeds from disposals of short-term investments		**—**	3,254,473
Investments in associates and joint ventures		**(163,226)**	(107,400)
Purchase of property, plant and equipment		**(28,978)**	(17,729)
Purchase of intangible assets		**(154,145)**	(115,588)
Proceeds from disposals of property, plant and equipment		**254**	2,239
Net cash (outflow)/inflow arising from deemed disposal and disposal of subsidiaries		**(101,094)**	17,429
Interest received		**183,802**	50,607
Receipt from maturity of deposits placed with related parties		**—**	500,000
Dividends received		**45,205**	781
Net cash flows used in investing activities		**(176,628)**	(432,835)

The notes on pages 107 to 227 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**22,373**	475,000
Repayments of borrowings	**(95,000)**	(540,046)
Proceeds from film investors	**12,300**	—
Repayments to film investors	**(50,000)**	—
Finance costs paid	**(46,249)**	(59,465)
Payment of ordinary shares issuance costs	**—**	(206,237)
Proceeds from issuance of ordinary shares	**—**	7,038,787
Payment for guarantee fee	**(3,073)**	(3,128)
Payment for acquisition of non-controlling interests	**(19,875)**	—
Repayment of non-trade payable due to a related party	**—**	(35,000)
Interest income on IPO subscription deposits	**—**	55,575
Net cash flows (used in)/provided by financing activities	**(179,524)**	6,725,486
Net increase in cash and cash equivalents	**561,526**	7,178,361
Cash and cash equivalents at the beginning of the year	**7,502,430**	404,915
Exchange gains/(losses) on cash and cash equivalents	**278,272**	(80,846)
Cash and cash equivalents at the end of the year	**8,342,228**	7,502,430

The notes on pages 107 to 227 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1 GENERAL INFORMATION (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.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 Compliance with IFRS

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

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.4 New standards and interpretations not yet adopted

A number of new standards and interpretations have not come into effect for the financial year beginning January 1, 2018, and have not been early adopted by the Group in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except IFRS 16 Lease as set out below:

(a) Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

(b) Impact

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.4 New standards and interpretations not yet adopted (Continued)

(c) Date of adoption by Group

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

2.2 Changes in accounting policies

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

(a) Impact on the financial statements

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

The Group has also adopted IFRS 15 on January 1, 2018. In accordance with the transitional provision in IFRS 15, since the impact is not material to the consolidated financial statements of the Group, comparative figures have not been restated except for the reclassification of prepayments received from customers into deferred revenues (representing contract liabilities) under IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments

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

The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.12 below. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities were recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings.

Classification and measurement

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

Assets

At January 1, 2018	RCPS RMB'000	DFA RMB'000	FVPL RMB'000	Total RMB'000
Opening balance – IAS 39	**267,000**	**37,594**	**—**	**304,594**
Reclassification of investments in redeemable shares of associates ("RCPS") to financial assets at fair value through profit or loss ("FVPL")	**(267,000)**	**—**	**267,000**	**—**
Reclassification of derivative financial assets ("DFA") to FVPL	**—**	**(37,594)**	**37,594**	**—**
Opening balance – IFRS 9	**—**	**—**	**304,594**	**304,594**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments (Continued)

There are no effects resulting from this reclassification on the Group's equity.

Debt investments in RCPS of approximately RMB267,000,000 were reclassified from RCPS to FVPL as of January 1, 2018. They do not meet the definition of equity instruments from the perspective of the issuer and they are not eligible to be classified as amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments principal and interest. In prior years, fair value gains related to these investments amounting to approximately RMB156,758,000 were recognised in profit or loss.

Derivative financial assets of approximately RMB37,594,000 were reclassified to FVPL as of January 1, 2018. They do not meet the criteria to be classified as amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payment principal and interest. In prior years, the gains related to the derivative financial assets amounting to approximately RMB37,594,000 were recognised in profit or loss.

Impairment of financial assets

The Group has the following types of financial assets subject to IFRS 9 new expected credit loss model:

- Trade and notes receivable; and
- Deposits and other receivables.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(c) IFRS 15 Revenue from Contracts with Customers

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

2.3 Principles of consolidation and equity accounting

2.3.1 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 2.4).

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.2 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. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

2.3.3 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 has both joint operations and joint ventures.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see Note 2.3.4 below), after initially being recognised at cost in the consolidated statement of financial position. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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.

2.3.5 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 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.

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 as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 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.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The chief operating decision-makers mainly include the executive directors.

2.7 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Foreign currency translation (Continued)

(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.

Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in the consolidated statement of comprehensive income as part of the fair value gain or loss and translation differences on non-monetary financial assets, such as equity instruments classified at fair value through other comprehensive income (FVOCI), are included in other comprehensive income.

(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, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 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.

2.8 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	4 to 5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property, plant and equipment (Continued)

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 2.11).

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.

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.

2.9 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (Continued)

(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 with a finite useful life 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.

The trademark that acquired in the acquisition of New Classics Media (Note 37) has indefinite useful life. This trademark will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that it may be impaired.

(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' contracts, distribution channel relationship, customers relationship and non-compete agreement, 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
Non-compete agreement	4 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (Continued)

(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 10 years) using the straight-line method.

2.10 Television series and film rights

2.10.1 Adaption rights and scripts

Cost includes all direct costs associated with the purchase of adaption rights and payments on scripts.

2.10.2 Television series and film rights under production

Television series and film rights under production are carried at cost, less any identified impairment loss.

Cost includes all direct costs associated with the production of television series and films rights, including production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of television series and films as well as rental of camera, equipment and other facilities. For the co-produced television series and films under joint operation agreement, the related production costs is recognised in relation to its interests in a joint operation.

Television series and film rights under production are transferred to “television series and film rights completed” upon completion of production.

2.10.3 Television series and film rights completed

Television series and film rights completed are stated at cost, less accumulated amortisation and identified impairment losses, if any.

These television series and film rights are expensed in accordance with the expected consumption pattern by usage through various channels, such as television release, theatrical release or internet release, and other licensing arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Television series and film rights (Continued)

2.10.4 Impairment of television series and film rights

Impairment assessment of the television series and film rights is assessed on an annual basis or whenever events or changes in circumstances indicate that the carrying amount is below the recoverable amount, where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment loss is recognized in the consolidated statement of comprehensive income. The recoverable amounts of the television series and film rights are determined and reviewed on a title-by-title basis and are based on their fair value that include unobservable inputs and assumptions derived from the Group.

2.11 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 (CGU). 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets

2.12.1 Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 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.

2.12.3 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 FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.3 Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is recognised in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains, net". Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains, net". Interest income from these financial assets is recognised in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "finance costs" and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other gains, net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.3 Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other gains, net" when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains, net" in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 25 for further details.

Impairment on deposits and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since initial recognition, the impairment is measured as lifetime expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.5 Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until December 31, 2017 the Group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired, management's intentions and whether the assets are quoted in an active market. Management determined the classification of its investments at initial recognition.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.5 Accounting policies applied until December 31, 2017 (Continued)

Subsequent Measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables was subsequently carried at amortised cost using the effective interest method.

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

- for financial assets at fair value through profit or loss – in profit or loss within "other gains, net"
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.5 Accounting policies applied until December 31, 2017 (Continued)

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could 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 was considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could 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 decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

2.12.5 Accounting policies applied until December 31, 2017 (Continued)

Impairment (Continued)

(ii) Assets classified as available-for-sale

If there was 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 recognised in profit or loss – was removed from equity and recognised in profit or loss.

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

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2.13 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.

2.14 Inventories

Inventories mainly consist of paper and books, side-line merchandise for sale, TV drama and animation production costs. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018, no borrowing costs were capitalized by the Group (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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.

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 Company 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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.

(c) Uncertain tax positions

In determining the amount of current and deferred income tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes, interest or penalties may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

2.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee benefits (Continued)

(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.

(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.

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, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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.

2.23 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.

2.24 Revenue recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.1 The accounting policy for the Group's principal revenue sources

(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.

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 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.

With respect to the online paid reading revenue that derived from third-party platforms, the Group evaluated and determined it is 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations

Intellectual property operations revenues consist primarily of license of television series and film rights and film distribution in movie theatres (collectively referred to as "revenue from the licensing and distribution of film and television properties"), copyrights licensing and in-house online games operations.

– ***License of television series and film rights***

The Group generates revenue from license of television series and film rights to TV stations and online platforms. Revenue from license of television series and film rights is recognised when or as the control of the asset is transferred to the customer. Control of the asset is transferred to the customers, which is the TV stations and online platforms, when an agreement has been signed with a customer, and broadcast license and master tapes and materials have been delivered in accordance with the terms of the contracts, and the customers can obtain substantially all of the remaining benefits from the asset. Revenue is recognised at a point in time when the customer obtains control of the asset.

In determining the transaction price, an amount of consideration can vary because of refunds, if the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for such licenses. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

– ***Film distribution in movie theatres***

The Group generates revenue from film distribution in the movie theatres. Revenue from film distribution represents the Group's share of box office sales from films exhibited in movie theatres, after the payment of taxes and other charges by movie theatres and associates of movie theatres. Control of the asset is transferred to the customer, which is the associates of movie theatres, when (i) an agreement has been signed with a customer; (ii) master tapes and materials have been delivered in accordance with the terms of the contracts; and (iii) it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

However, films is an intellectual property exhibited in movie theatres over a period of time, therefore revenue from distribution is a usage-based royalty. The Group recognises revenue generated from a usage-based royalty only when (or as) the later of the following events occurs:

(i) the usage occurs; and

(ii) the performance obligation to which some or all of the usage-based royalty has been satisfied.

For film distribution in movie theatres for which the control of the asset is transferred at a point in time to the customer, since the usage occurs later than the performance obligation is satisfied, revenue is recognised over the period when the films are exhibited in movie theatres.

Payments made by the Group to the audiences through online ticket platform for ticket discount are assessed and accounted for the same as those paid directly to the Group's customer, which are recorded as net of revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.1 The accounting policy for the Group's principal revenue sources (Continued)

(b) Intellectual property operations (Continued)

– ***Copyrights licensing***

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 probable. 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 continuous 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.

– ***In-house online games operations***

The Group provides game operation services through its own web-based platforms and third party web-based 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.1 The accounting policy for the Group's principal revenue sources (Continued)

(c) Other revenues

The Group's other revenues are primarily derived from sales of physical books and game publishing. The Group recognizes revenue when the effective control of the physical books are transferred, or when the respective services are rendered to the customers.

2.24.2 Principal versus agent considerations

In accordance with the principal versus agent considerations prescribed by IFRS 15, the Group determines whether it acts as the principal or agent in each of its revenue streams. The principal is the entity that has promised to provide goods or services to its customers. An agent arranges for goods or services to be provided by the principal to its end customer. An agent normally receives a commission or fee for these activities.

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.

2.24.3 Incentives

For the online paid reading 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. Contract liabilities are recognized until the incentives are redeemed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (Continued)

2.24.4 Comparative period

Revenue for the Group's aforementioned principal revenue sources was recognised on a similar basis in the comparative period under IAS 18.

2.25 Interest income

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.26 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.

2.27 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 35). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 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.

2.29 Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), price 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.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors (Continued)

(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, 2018, 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, 2018			
Monetary assets, current	**66,680**	**1,277,564**	**58,117**
Monetary liabilities, current	**14,248**	**2,329**	**515**
As of December 31, 2017			
Monetary assets, current	14,729	1,396,068	880,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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, 2018 would have been approximately RMB4,282,000 higher/lower (2017: RMB1,125,000), 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, 2018 would have been approximately RMB115,156,000 higher/lower (2017: RMB139,607,000) mainly as a result of net foreign exchange gains/losses 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 cash and cash equivalents and term deposits, details of which have been disclosed in Note 27.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 29. 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, 2018, 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, 2018 would have been approximately RMB130,000 lower/higher (2017: RMB1,566,000), mainly attributable to the Group's exposure to interest rates on its variable rate non-current bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Price risk

The Group is exposed to price risk in respect of the long-term equity investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investments managed by senior management on a case by case basis.

(c) 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, trade receivables, as well as other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and deposits

Credit risk is managed on a Group basis. To manage this risk, the Group only makes transactions with state-owned banks and financial institutions in the PRC and reputable international banks and financial institutions outside of the PRC. There has been no recent history of default in relation to these banks and financial institutions. The expected credit losses are immaterial.

(ii) Credit risk of trade receivables

To manage this risk, the Group has policies in place to ensure that revenues of on credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. In addition, the Group has a large number of customers and there is no concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

For the Group's online paid reading 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 expected credit loss 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. Based on historical experience, majority of the trade receivables of the physical books business were settled within credit term, hence the expected credit loss is close to zero.

For trade receivables due from TV stations, online platforms and film distributors, if the strategic relationship with TV stations, online platforms and film distributors, as well as due from related parties, is terminated or scaled-back; or if TV stations, online platforms and film distributors 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 TV stations, online platforms and film distributors to ensure effective credit control. In view of the history of cooperation major TV stations, online platforms and film distributors and the sound collection history of receivables due from them, the directors of the Company believe that the expected credit loss inherent in the Group's outstanding trade receivable balances due from TV stations, online platforms and film distributors (except for the impaired receivables) is low.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the year end with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

– internal credit rating;

– external credit rating (as far as available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations; and

– actual or expected significant changes in the operating results of customers.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(ii) Credit risk of trade receivables (Continued)

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**20,484**	8,299
Provision for doubtful receivables	**15,550**	27,150
Receivables written off during the year as uncollectable	**(505)**	(13,834)
Collection of amounts previously in dispute	**(16,457)**	(1,131)
At the end of the year	**19,072**	20,484

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

(iii) Credit risk of other receivables

Other receivables at the end of each of the years are mainly comprised of prepayment for production of television series and films, receivables from co-producers and others on production of television series and films, prepayment to directors, actors and writers, rental deposits, staff advances and other receivables. The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis throughout each of the years. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as of the reporting date with the risk of default as of the date of initial recognition. Especially the following indicators are incorporated:

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;

– actual or expected significant changes in the operating results of the debtor; and

– significant changes in the expected performance and behavior of the debtor, including changes in the payment status of debtor.

Management considers other receivables to be low credit risk when they have a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and the loss allowance recognised is therefore limited to 12 months expected losses. In view of insignificant risk of default and credit risk since initial recognition, management believes that the expected credit loss under the 12 months expected losses method is immaterial.

Previous accounting policy for impairment of trade receivables and other receivables is described in Note 2.12.5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. 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, 2018				
Trade payables	**1,131,067**	**—**	**—**	**1,131,067**
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	**1,777,281**	**5,079**	**—**	**1,782,360**
Borrowings	**1,385,445**	**380,000**	**—**	**1,765,445**
Financial liabilities at fair value through profit or loss (Note 18)	**1,190,954**	**942,176**	**450,863**	**2,583,993**
	5,484,747	**1,327,255**	**450,863**	**7,262,865**
As of December 31, 2017				
Trade payables	656,953	—	—	656,953
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	349,848	4,896	—	354,744
Borrowings	—	475,000	—	475,000
	1,006,801	479,896	—	1,486,697

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, 2018, 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, 2018 and 2017 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, 2018

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, 2018:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2018				
Assets				
FVPL	**—**	**26,804**	**444,137**	**470,941**
Liabilities				
Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests	**—**	**—**	**500**	**500**
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portion)	**—**	**—**	**3,144,619**	**3,144,619**

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 Corporation's non-controlling interests	—	—	500	500

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, 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The changes in level 3 instruments for the years ended December 31, 2018 and 2017 are presented in the following table:

	Financial assets		Financial liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Opening balance - IAS 39	**304,594**	114,008	**500**	500
Adjustment on adoption of IFRS 9 (Note 2.2(b))	**—**	—	**—**	—
Opening balance - IFRS 9	**304,594**	114,008	**500**	500
Additions	**71,589**	63,000	**3,301,627**	—
Changes in fair value	**94,810**	127,586	**(108,938)**	—
Currency translation differences	**(52)**	—	**(48,070)**	—
Closing balance	**470,941**	304,594	**3,145,119**	500
Include unrealised gains recognised in profit or loss for the period attributable to balances held at the end of the reporting period	**94,810**	127,586	**108,938**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Valuation inputs and relationships to fair value

The Group has engaged independent external valuers for performing the fair value valuation of investments in redeemable shares of associates and contingent consideration payables as of December 31, 2018.

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,		Significant Unobservable inputs	Range of inputs As of December 31,		Relationship of unobservable inputs to fair value
	2018 RMB'000	2017 RMB'000		**2018 RMB'000**	2017 RMB'000	
Asset						
Investments in redeemable shares of associates	**372,600**	267,000	IPO probability	**40%**	40% and 45%	The higher the IPO probability, the higher the fair valne.
Liabilities						
Consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests	**500**	500	Note a			
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media	**3,144,619**	—	Note b	**Growth rate: 50% Expected volatility: 15%**	N/A	The higher the growth rate, the higher the fair value. The higher the expected volatility, the lower the fair value.

Notes

(a) The significant unobservable input of consideration payable related to the acquisition of Cloudary Corporation's non-controlling interests is the estimated financial performances of the underlying acquired non-controlling interest. The Group determined the fair value of these considerations payable based on the estimated financial performance and the predetermined formula that set out in the respective share purchase agreement.

(b) The significant unobservable inputs of contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media include the growth rate and volatility of net profit of New Classics Media used for reflecting the associated risk of the payment to arrive the present value of consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 contingent consideration payable, reasonably possible changes at December 31, 2018 and 2017 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	December 31,			
	2018		2017	
	Changes in fair value (in RMB'000)			
	Increase	**Decrease**	Increase	Decrease
Investments in redeemable shares of associates – IPO probability (5% movement)	**26,900**	**(28,900)**	1,700	(800)
Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media				
– Growth rate (5% movement)	**149,884**	**(171,215)**	—	—
– Expected volatility (5% movement)	**(90,052)**	**92,269**	—	—

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 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, 2018

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of television series and film rights

The management of the Group assesses any impairment on television series and film rights whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The management mainly considers the following factors in assessing whether there is any indication that the television series and film rights may be impaired:

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- Management's own forecasts of future net cash inflows or operating profits may show a significant decline from previous budgets and forecasts.

The assessment was made on a television series-by-television series and film-by-film basis. The recoverable amount of the television series and film rights was determined by considering the current market environment to project cash flows expected to be received. If the recoverable amount is lower than the carrying amount, the carrying amount of the television series and film rights will be written down to its recoverable amount.

The key assumptions made by the management used in the cash flow forecasts mainly include license agreements entered or to be entered into by the Group, historical trend of similar film released and discount rate. Discount rate adopted when calculating discounted cash flows, which reflects market assessments of time value and the specific risks relating to the industry that the Group operates. The Group's estimation of recoverable amount of television series and film rights reflects the management's best estimate of future cash flows expected to be generated from the television series and film rights.

(c) Business combination

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets and forecasted life cycle and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Contingent consideration payable

With respect to the valuation of the contingent consideration payable that arising from the Group's acquisition of New Classics Media (Note 37), the Group uses its judgement to select an appropriate method and make assumptions, including the growth rate and volatility of net profit of New Classics Media, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

(e) 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.

(f) 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, 2018

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(g) Fair value measurement of FVPL and other financial assets

The fair value assessment of FVPL and other financial assets that are measured at level 3 fair value hierarchy requires significant estimates, which include estimating the future cash flows, determining appropriate discount rates 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.

5 SEGMENT INFORMATION

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

5 SEGMENT INFORMATION (CONTINUED)

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

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

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

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

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

The reconciliation of gross profit to profit before income tax of individual period during the year ended 2018 and 2017 is shown in the consolidated statement of comprehensive income.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

6 REVENUES

6.1 Disaggregation of revenue from contracts with customers

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

6 REVENUES (CONTINUED)

6.2 Liabilities related to contracts with customers

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

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

(a) Significant changes in deferred revenue

Deferred revenue mainly comprises of contract liabilities in relation to 1) service fees prepaid by customers in the form of pre-paid tokens or cards, and subscription, for which the related services had not been rendered as of December 31, 2018 and 2017; 2) the balance of deferred copyrights licensing income to be amortized over remaining sub-licensing period, and the portion to be recognized over one year after the end of each reporting period will be classified as non-current liabilities in the consolidated statement of financial position; and 3) the prepayments received from customers, including TV stations, online platforms and advertising customers, for which master tapes have not been delivered as broadcasting license have not been obtained for these television series or films, and advertising services have not been provided.

(b) Revenue recognised in relation to deferred revenue

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

7 EXPENSES BY NATURE

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Content costs (Note a)	**1,529,313**	1,280,011
Promotion and advertising expenses (Note b)	**851,836**	603,616
Employee benefits expenses (Note 8)	**671,938**	601,527
Payment handling costs	**283,125**	211,171
Production costs of television series and film rights (Note c)	**273,276**	57,713
Online reading platform distribution costs	**196,165**	237,704
Amortization of intangible assets (Note 16)	**146,177**	154,036
Cost of physical inventories sold (Note 22)	**98,764**	105,185
Professional service fees	**73,110**	95,016
Provision for inventory obsolescence (Note 22)	**63,773**	39,619
Operating lease rentals	**58,494**	45,526
Bandwidth and server custody fees	**55,287**	59,217
Travelling, entertainment and general office expenses	**45,132**	44,461
Online game platform distribution costs	**23,546**	16,746
Depreciation of property, plant and equipment (Note 15)	**17,874**	22,239
Auditors' remuneration		
– Audit services	**7,854**	12,552
– Non-audit services	**1,039**	311
Logistic expenses	**9,155**	10,243
Game development outsourcing costs	**8,765**	19,349
Others	**85,225**	52,752
	4,499,848	3,668,994

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, self-operated 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 the Group paid to mobile devices manufactures for its 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) Production costs of television series and film rights include animation production costs.

(d) Research and development expenses (being included in the Group's general and administrative expenses) for the year ended December 31, 2018 was approximately RMB343,734,000 (2017: RMB293,363,000), which mainly included employee benefits expenses of research and development function staff.

8 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**370,185**	347,148
Other social security costs, housing benefits and other employee benefits	**96,189**	86,960
Pension costs — defined contribution plans	**36,670**	29,973
Share-based compensation expenses (Note 34)	**152,227**	137,446
Other compensation costs (Note 37)	**16,667**	—
	671,938	601,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

8 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Five highest paid individual

The five individuals whose emoluments were the highest in the Group do not include director during the year ended December 31, 2018 (2017: one), and their emoluments are reflected in the analysis shown in Note 8(b). The emoluments payable to the five (2017: four) individuals during the year ended December 31, 2018, are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Salaries and wages	**5,121**	4,449
Discretionary bonuses	**2,446**	4,765
Other social security costs, housing benefits and other employee benefits	**272**	259
Pension costs — defined contribution plans	**215**	188
Share-based compensation expenses	**37,773**	29,705
Other compensation costs	**10,992**	—
	56,819	39,366

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Emoluments bands:		
HKD10,000,001 to HKD20,000,000	**5***	2
HKD5,000,001 to HKD10,000,000	**—**	2
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	**—**	—
	5	4

* Including one employee of a subsidiary of the Group and his emolument amounts are mainly comprised of charges related to the contingent compensation arrangement, and details of the arrangements are set out in Note 37.

During the years ended December 31, 2018 and 2017, 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

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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, 2018 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary 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)]	–	2,719	1,445	51	73	–	4,288
– Liang Xiaodong[(1)]	–	–	1,000	–	–	5,874	6,874
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)]	438	–	219	–	–	–	657
– Leung Sau Ting Miranda[(5)]	438	–	438	–	–	–	876
– Liu Junmin[(5)]	438	–	219	–	–	–	657
	1,314	2,719	3,321	51	73	5,874	13,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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, 2017 are set out as follows:

	Director's fee RMB'000	Salaries and wages RMB'000	Discretionary 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)]	—	2,344	3,103	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	2,344	4,603	47	69	10,509	17,776

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, 2018

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

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9 OTHER GAINS, NET

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Gain on disposals of subsidiaries (Note 24)	**127,911**	60,888
Fair value gain on financial liabilities at fair value through profit or loss (Note 37)	**108,938**	—
Fair value gain on financial assets at fair value through profit or loss (Note 19)	**94,810**	5,002
Government subsidies	**44,793**	32,584
Gain on copyright infringements	**6,683**	11,668
Foreign exchange gain, net	**—**	24,640
Fair value gain of investments in redeemable shares of associates (Note 19)	**—**	97,492
Fair value gain of derivative financial assets (Note 19)	**—**	30,094
Interest income on investments and loans receivable	**—**	9,183
Impairment loss of intangible assets (Note 16)	**—**	(156,254)
Expenditure related to acquisition (Note 37)*	**(37,755)**	—
Others, net	**(6,470)**	(4,574)
	338,910	110,723

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

10 FINANCE COSTS

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Foreign exchange loss, net	**96,557**	—
Interest expense	**48,510**	29,843
Guarantee expense	**3,422**	2,422
Accretion charges of put option liability (Note 28)	**—**	2,905
	148,489	35,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 INTEREST INCOME

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

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, 2018

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, 2018.

Certain subsidiaries of the Group in the PRC were approved as High and New Technology Enterprise, and accordingly, they were subject to a reduced preferential CIT rate of 15% for the years ended December 31, 2018 and 2017 according to the applicable CIT Law. In addition, a subsidiary of the Group in the PRC was approved as Software Enterprise (being software enterprise qualified for a double-layered certification), and accordingly, it was subject to a reduced preferential CIT rate of 12.5% for the years ended December 31, 2018 and 2017 according to the applicable CIT Law.

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current tax	**147,566**	102,021
Deferred income tax (Note 20)	**17,837**	(18,983)
Income tax expense	**165,403**	83,038

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

13 EARNINGS PER SHARE

(a) Basic earnings per share for the years ended December 31, 2018 and 2017 are calculated by dividing the profit attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the periods.

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

(b) Diluted earnings 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

14 DIVIDENDS

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

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
At December 31, 2018						
Opening net book amount as of January 1, 2018	**17,356**	**13,464**	**2,868**	**2,355**	**7**	**36,050**
Additions	**9,587**	**14,723**	**2,116**	**279**	**1,982**	**28,687**
Disposals	**(618)**	**(121)**	**(158)**	**—**	**—**	**(897)**
Transfer from construction in progress	**—**	**1,989**	**—**	**—**	**(1,989)**	**—**
Deemed disposal of a subsidiary (Note 24)	**(983)**	**(156)**	**(20)**	**—**	**—**	**(1,159)**
Business combination (Note 37)	**788**	**1,064**	**378**	**659**	**—**	**2,889**
Depreciation	**(7,040)**	**(8,820)**	**(1,343)**	**(671)**	**—**	**(17,874)**
Closing net book amount as of December 31, 2018	**19,090**	**22,143**	**3,841**	**2,622**	**—**	**47,696**

	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
At December 31, 2017						
Opening net book amount as of January 1, 2017	28,228	2,876	1,464	857	11,593	45,018
Additions	5,587	1,067	275	1,993	6,940	15,862
Disposals	(2,238)	(190)	(138)	—	—	(2,566)
Transfer from construction in progress	—	15,974	2,552	—	(18,526)	—
Disposal of subsidiaries	—	—	—	(25)	—	(25)
Depreciation	(14,221)	(6,263)	(1,285)	(470)	—	(22,239)
Closing net book amount as of December, 2017	17,356	13,464	2,868	2,355	7	36,050

During the year ended December 31, 2018, depreciation expense of approximately RMB695,000 (2017: RMB675,000), RMB2,031,000 (2017: RMB1,627,000) and RMB15,148,000 (2017: RMB19,937,000) 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, 2018

16 INTANGIBLE ASSETS

	Goodwill RMB'000	Non-compete agreement 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
At December 31, 2018										
Opening net book amount as of January 1, 2018	3,720,323	—	466,814	226,566	65,999	4,841	595	12,773	3,186	4,501,097
Additions	—	—	—	144,492	—	—	—	9,031	—	153,523
Deemed disposal of a subsidiary (Note 24)	—	—	(25,000)	(143)	—	(327)	—	(15,518)	—	(40,988)
Business combination (Note 37)	6,933,002	24,400	716,300	—	—	—	—	—	—	7,673,702
Amortization	—	(1,017)	(25,221)	(97,664)	(14,666)	(3,714)	(574)	(2,671)	(650)	(146,177)
Closing net book amount as of December 31, 2018	10,653,325	23,383	1,132,893	273,251	51,333	800	21	3,615	2,536	12,141,157

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill

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

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

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2018 and 2017 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on the higher amount of the fair value less cost of disposal ("FVLCD") and value-in-use calculations.

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

The Group has engaged an independent external valuer for performing the goodwill impairment assessments. Based on the results of the impairment assessments, no impairment loss on the goodwill was recognised as of December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

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

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

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

As of December 31, 2017, the goodwill is attributable to the acquired market share and economies of scale expected to be derived from combining with the operations of the Group, and the CGU to which the goodwill is allocated is the Group as a whole, being the only operating segment. As of December 31, 2017, the recoverable amount of the Group was determined based on FVLCD, which was estimated by management with reference to the transaction price of the Company's listed shares in the Main Board of The Stock Exchange of Hong Kong Limited. Management considered the recoverable amount of the Group was higher than its carrying amount as of December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

16 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill (Continued)

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

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

As there was indication that the Group's distribution channel relationship has suffered an impairment loss, impairment review on the distribution channel relationship of the Group has been conducted by the management as of December 31, 2017 according to IAS 36 "Impairment of assets". Given there is no active market for the Group's intangible assets of distribution channel relationship, the recoverable amount of the trademark is determined based on the value-in-use calculations. As of December 31, 2017, in light of the legal proceeding with one of the Group's telecom operator customers, the Group made a full impairment provision against the carrying amount of distribution channel relationship with that telecom operator customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(a) Investments in associates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates (Continued)

Set out below is the major associate of the Group as of December 31, 2018, which, in the opinion of the directors, is material to the Group. The Group's major associate ("Munpia Co., Ltd." or referred to as "Munpia" hereafter) as listed below has share capital consisting of ordinary shares and preferred shares, which held directly by the Group; the country of incorporation or registration is also its principal place of business. The investment in ordinary shares of Munpia is accounted for as "investment in associate" while investment in preferred shares of Munpia is accounted for as "FVPL" (Note 19).

Name	Date of incorporation	Particulars of issued shares held (RMB'000)	Place of incorporation	Percentage of ownership interest attribution to the Group December 31, 2018	2017	Principal activities
Munpia Co., Ltd. ("Munpia")	December 27, 2012	668	South Korea	**23%**	—	Online reading service

Summarised financial information of the Group's major associate

Set out below is the summarised financial information for Munpia which is accounted for using the equity method.

	As of December 31, 2018 RMB'000
Current assets	**152,074**
Non-current assets	**9,566**
Current liabilities	**29,560**
Non-current liabilities	**48,349**
Revenues	**37,561**
Profit for the period	**10,052**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(a) Investments in associates (Continued)

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

The Group determined that it does not have a controlling financial interest in above investee, but rather possesses significant influence. The associate as listed above is private company and there is no quoted market price available for its shares.

Reconciliation of summarized financial information

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

	As of December 31, 2018 RMB'000
Net assets at the beginning of the year	**—**
Acquisition of an associate	**74,458**
Profit for the period	**10,052**
Other comprehensive loss	**(779)**
Net assets at the end of the year	**83,731**
Interest in an associate	**23%**
Goodwill	**83,715**
Currency translation differences	**(1,470)**
Carrying value	**101,712**

As of December 31, 2018, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was approximately RMB206,082,000.

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, 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**157,918**	54,224
Additions (Note 24)	**163,000**	41,858
Dividend from a joint venture	**(45,205)**	—
Disposals	**(5,485)**	—
Share of net profit of joint ventures	**102,896**	61,836
At the end of the year	**373,124**	157,918

Set out below are the major joint ventures of the Group as of December 31, 2018. The joint ventures 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 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, 2018**	**2017**	**Principal activities**
Beijing Jinjiang Networking Technology Co., Ltd. ("Jinjiang")	March 13, 2006	5,550	PRC	**50%**	50%	Online reading service
Shenzhen Lazy Online Technology Co., Ltd. ("Lazy Online") (Note 24)	March 27, 2012	12,309	PRC	**41%***	51%	Online audio streaming service

*Note: As of December 31, 2018, the Group owned 41% legal ownership interest of Lazy Online after the deemed disposal of Lazy Online (Note 24), while the Group used the equity method to account for the investment in Lazy Online by using the percentage of effective equity interest ownerships during the year ended December 31, 2018.

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures (Continued)

Summarized financial information of the Group's major joint ventures

Set out below is the summarized financial information for Jinjiang and Lazy Online, which are accounted for using the equity method.

	Jinjiang December 31,		Lazy Online December 31,	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Current assets	**504,749**	302,783	**246,027**	—
Non-current assets	**623**	588	**133,023**	—
Current liabilities	**165,010**	69,255	**50,924**	—
Non-current liabilities	**62**	310	**195,363**	—
Revenues	**806,363**	396,500	**164,495**	—
Profit for the year/period	**196,904**	130,253	**7,427**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures (Continued)

Reconciliation of summarized financial information

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

	Jinjiang		**Lazy Online**	
	December 31,		**December 31,**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Net assets at the beginning of the year	**233,806**	103,553	**—**	—
Addition of a joint venture from deemed disposal of a subsidiary	**—**	—	**125,336**	—
Profit for the year/period	**196,904**	130,253	**7,427**	—
Dividends	**(90,410)**	—	**—**	—
Net assets at the end of the year	**340,300**	233,806	**132,763**	—
Interest in associates	**50%**	50%	**52%**	—
Goodwill	**2,447**	2,447	**97,761**	—
Carrying value	**172,597**	119,350	**166,866**	—

As of December 31, 2018, the carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method were approximately RMB33,661,000.

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

(c) Joint operations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Assets as per consolidated statement of financial position		
FVPL (Note 19)	**470,941**	304,594
Financial assets at amortised cost:		
– Trade and notes receivables (Note 25)	**1,830,396**	759,983
– Other investments - TV drama participation investment (principal and return guaranteed) (Note 26)	**—**	25,128
– Deposits and other assets (current and non-current portions) (Note 21)	**217,315**	79,071
– Term deposits (current and non-current portions) (Note 27)	**481,561**	1,104,280
– Cash and cash equivalents (Note 27)	**8,342,228**	7,502,430
	11,342,441	9,775,486

	As of December 31,	
	2018	2017
	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	**500**	500
– Contingent consideration payable related to the acquisition of 100% equity interest of New Classics Media (current and non-current portions) (Note 37)	**3,144,619**	—
Financial liabilities at amortized cost:		
– Trade payables (Note 30)	**1,131,067**	656,953
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 31)	**1,661,726**	329,042
– Borrowings (current and non-current portions) (Note 29)	**1,765,445**	475,000
	7,703,357	1,461,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

Financial assets mandatorily measured at FVPL include the following:

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

Movement of FVPL is analysed as follows:

	As of December 31, 2018 RMB'000
At the beginning of the year	**—**
Adjustment on adoption of IFRS 9 (Note 2.2)	**304,594**
Additions	**71,589**
Business combination (Note 37)	**8,992**
Changes in fair value (Note 9)	**94,810**
Currency translation differences	**(52)**
Disposals	**(8,992)**
At the end of the year	**470,941**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

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

Notes:

(a) In 2015, the Group made investment in some convertible redeemable preferred shares or redeemable ordinary shares with preference rights of a private company that engaged in provision of audio online publishing service, and the investment was initially acquired in exchange of licensing certain copyrights of the Group to the investee for a certain period of time. Both of the investment and copyrights licensed are initially measured at fair value. During the year ended December 31, 2017, the RMB63,000,000 addition of investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in the Group's previous subsidiary Shanghai Foch Film Culture Investment Co., Ltd. ("Foch").

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

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

These aforementioned investments held by the Company contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group accounts for such investment as FVPL.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(b) Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss:

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

20 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,	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered after more than 12 months	**8,403**	10,129
– to be recovered within 12 months	**87,156**	10,197
	95,559	20,326
Deferred tax liabilities:		
– to be recovered after more than 12 months	**(390,639)**	(179,950)
– to be recovered within 12 months	**(59,169)**	(13,957)
	(449,808)	(193,907)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

20 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	Provision for intangible assets impairment 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, 2017	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)
Recognized in the profit or loss	**—**	**3,494**	**65**	**(43,774)**	**22,378**	**(17,837)**
Deemed disposal of a subsidiary	**—**	**—**	**—**	**—**	**6,331**	**6,331**
Business combinations (Note 37)	**—**	**6,925**	**7,685**	**47,091**	**(230,863)**	**(169,162)**
As of December 31, 2018	**3,186**	**10,978**	**7,750**	**(38,148)**	**(338,015)**	**(354,249)**

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, 2018, the Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB163,158,000 (December 31, 2017: RMB159,692,000). These tax losses will expire from 2019 to 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Non-current:		
Prepayment to directors, actors and writers (Note a)	**135,046**	—
Deposits and prepayments	**12,455**	20,655
Deferred compensation cost (Note b)	**—**	2,213
	147,501	22,868
Current:		
Prepayment for production of television series and films	**134,830**	—
Receivable from co-producers and others on production of television series and films	**121,793**	—
Prepayments to vendors and online writers	**108,766**	52,682
Recoverable value-added tax	**84,347**	1,356
Interests receivable	**45,747**	28,732
Amounts due from related parties (Note 40)	**30,986**	700
Prepayment to directors, actors and writers (Note a)	**20,150**	—
Rental and other deposits	**13,447**	13,891
Royalty advances	**9,883**	8,656
Staff advances	**8,007**	3,165
Deferred license fees and related costs	**4,964**	488
Prepayment for an overseas licensed film right	**4,654**	—
Receivable related to RSUs withholding IIT	**—**	175,570
Others	**22,326**	10,572
	609,900	295,812

Notes:

(a) As of December 31, 2018, the balance represented the prepayments made to directors, actors and writers in connection with the Group's productions of television series and film rights.

(b) 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.

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, 2018 and 2017. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

22 INVENTORIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

23 TELEVISION SERIES AND FILM RIGHTS

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

	Adaption rights and scripts RMB'000	**Under production RMB'000**	**Completed RMB'000**	**Total RMB'000**
As of January 1, 2018	**—**	**—**	**—**	**—**
Additions (Note a)	**104,935**	**426,340**	**149,757**	**681,032**
Business combination (Note 37)	**679,382**	**1,730,833**	**39,085**	**2,449,300**
Transfer from under production to completed	**—**	**(815,497)**	**815,497**	**—**
Transfer from adaption rights and scripts to under production	**(74,526)**	**74,526**	**—**	**—**
Recognised in cost of revenue (Note c)	**(300)**	**—**	**(272,976)**	**(273,276)**
As of December 31, 2018 (Note b)	**709,491**	**1,416,202**	**731,363**	**2,857,056**

Notes:

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

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

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

24 DISPOSAL OF SUBSIDIARIES

In April 2018, a number of new third party investors injected additional capital of RMB150,085,000 to the Group's subsidiary Lazy Online. The transaction was completed in April 2018 and after that, the Group would no longer be able to exercise control over Lazy Online. Upon the deemed disposal, the carrying amount of the original equity interest of Lazy Online owned by the Group was amounting to approximately RMB35,089,000, while the fair value of the remaining equity interest of Lazy Online owned by the Group immediately after the aforementioned capital injection was amounting to RMB163,000,000 and recognized as "investments in joint venture" (Note 17) in the consolidated statement of financial position. Accordingly, a disposal gain of approximately RMB127,911,000 was recognized for the year ended December 31, 2018.

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.

In March 2017, with the Group's sale of 8% equity interest in the Group's previously 51% owned subsidiary Foch to a third party and the capital injection into Foch by a new inventor, the Group had been 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 Group 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 designates the investment in redeemable shares of Foch as financial assets at fair value through profit or loss. Upon the disposal, the carrying amount (including goodwill) of the original 51% equity interest of Foch owned by the Group was amounting to approximately RMB17,184,000, while the fair value of the remaining 38.7% redeemable shares of Foch owned by the Group immediately after the share transfer and capital injection was amounting to RMB63,000,000. 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, 2018

25 TRADE AND NOTES RECEIVABLES

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

As of December 31, 2017, individually significant receivables have been separately assessed for impairment. Allowance was set up against impaired receivables arising from credit default of several customers who are in financial difficulties.

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

The directors of the Company considered that the carrying amounts of the trade and notes receivables balances approximated to their fair value as of December 31, 2018 and 2017.

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade and notes receivables		
– Up to 3 months	**978,853**	538,699
– 3 to 6 months	**688,166**	114,785
– 6 months to 1 year	**95,986**	85,809
– 1 to 2 years	**29,608**	17,196
– Over 2 years	**37,783**	3,494
	1,830,396	759,983

26 OTHER INVESTMENTS AT AMORTISED COST

Classification of financial assets at amortised cost

The group classifies its financial assets as amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

	As of December 31,	
	2018	2017
	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, 2018

27 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Bank balances and term deposits	**8,823,789**	8,606,710
Less: Term deposits with initial term of over three months and less than one year	**481,561**	653,420
Term deposits with initial term of over one year	**—**	450,860
Cash and cash equivalents	**8,342,228**	7,502,430
Maximum exposure to credit risk	**8,823,789**	8,606,710

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
USD	**4,195,517**	4,850,034
RMB	**4,573,871**	2,875,733
HKD	**54,401**	880,943
	8,823,789	8,606,710

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, 2018.

The effective interest rates of the term deposits with initial terms of over three months of the Group for the year ended December 31, 2018 are 2.63% (2017: 2.14%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

28 PUT OPTION LIABILITY

According to the equity transfer agreement ("Equity Transfer Agreement") in respect of the Group's previous non-wholly owned subsidiary, 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. As the put option had not been exercised and expired in August 2017, the put option liability of approximately RMB76,360,000 was reclassified to equity.

29 BORROWINGS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

29 BORROWINGS (CONTINUED)

Notes:

(a) In March 2017, one of the Group's subsidiaries Shanghai Yuewen Information Technology Co., Ltd. ("Shanghai Yuewen") entered into a two-year loan facility agreement with Bank of Communications, Shanghai Branch, where a loan facility up to RMB500,000,000 was made available to Shanghai Yuewen. As of December 31, 2017, the long-term borrowing balance of RMB475,000,000 consisted of two borrowings of RMB403,326,880 and RMB71,673,120, respectively, borrowed from Bank of Communications under the loan facility agreement. The loans bore a floating interest rate of Bank of Communications' loan prime rate minus 0.025% per annum and will be repayable in March, 2019. The loan facility was guaranteed by Bank of Communications, Tokyo Branch. As of December 31, 2018, this borrowing balance of RMB475,000,000 was reclassified to current liabilities as the borrowing will be repayable within 12 months after the end of the reporting period

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

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

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

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

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

The maturity of borrowings is as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

30 TRADE PAYABLES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

31 OTHER PAYABLES AND ACCRUALS

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Loan and interest payable due to a related party (Note 40)	**729,583**	—
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	**279,781**	—
Payables to financial investors in TV programs and film production	**275,876**	—
Advertising and marketing expense accruals	**123,761**	138,627
Staff costs and welfare accruals	**110,269**	116,842
Payments received from co-producer (Note b)	**103,847**	—
Professional service fee payable	**50,808**	37,257
Other tax payable	**42,808**	30,903
Payables related to transfer of intangible asset	**9,083**	9,083
Interests payable	**5,203**	620
Special funds payable	**3,348**	4,868
Payables related to investments	**2,750**	42,200
Logistic fee payable	**1,681**	2,000
Sales rebate accruals	**1,072**	953
Withholding IIT payable related to RSUs	**—**	175,570
Amount received for capital injection to a non-wholly owned subsidiary of the Group	**—**	50,050
Outsourcing game development fee payable	**—**	3,900
Others	**78,281**	44,852
	1,818,151	657,725

Note:

(a) Payables are related to the proceeds generated from television series and film rights that are collected by the Group as a distribution agent.

(b) It represents payments received from co-producers for the co-produced television series and films under joint operation agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

32 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, 2017	699,843,620	431	5,311,029	—	5,311,460
Issuance of ordinary shares (Note a)	166,164,528	111	7,038,676	—	7,038,787
Share issuance costs (Note b)	—	—	(206,237)	—	(206,237)
Issuance of shares held for RSU scheme (Note 34)	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
Issuance of ordinary shares (Note 37)	**—**	**80**	**4,375,333**	**—**	**4,375,413**
Transfer of vested RSUs, sale and repurchase of vested RSUs	**—**	**—**	**(62,242)**	**2**	**(62,240)**
As of December 31, 2018	**906,417,239**	**649**	**16,456,555**	**(21)**	**16,457,183**

Notes:

(a) 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.

(b) 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, 2018

33 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, 2018	**34,127**	**(133,067)**	**10,964**	**348,361**	**56,128**	**(7,281)**	**309,232**
Currency translation differences	**—**	**430,083**	**—**	**—**	**—**	**—**	**430,083**
Share-based compensation expenses (Note 34)	**—**	**—**	**—**	**152,227**	**—**	**—**	**152,227**
Profit appropriations to statutory reserves (Note a)	**—**	**—**	**—**	**—**	**30,445**	**—**	**30,445**
Acquisition of non-controlling interests (Note b)	**—**	**—**	**—**	**—**	**—**	**(23,656)**	**(23,656)**
Share of other comprehensive income of an associate	**—**	**(181)**	**—**	**—**	**—**	**—**	**(181)**
As of December 31, 2018	**34,127**	**296,835**	**10,964**	**500,588**	**86,573**	**(30,937)**	**898,150**
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 34)	487	—	—	136,959	—	—	137,446
Expiry of put option liability	—	—	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

33 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, 2018, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, Tianjin Shengda Tianfang Tingshu Information Technology Co., Ltd. and the aggregate net excess of considerations over the carrying amounts of acquired net non-controlling interests, being approximately RMB23,656,000, was recognised directly in equity.

34 SHARE-BASED PAYMENTS

(a) Share-based compensation plans of Tencent

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

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

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

The fair value of the awarded shares was calculated based on the market price of the Tencent's shares at the respective grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 SHARE-BASED PAYMENTS (CONTINUED)

(b) Share-based compensation plan of the Group

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

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

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

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

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

On January 17, 2017, the shareholders of the Company approved additional 15,409,901 new ordinary share to be further reserved for the purpose of the Company's employee incentive plan. The aggregate number of shares reserved under 2014 Equity Incentive Plan shall be amounted to 40,409,091 shares.

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

On October 29, 2018, 3,909,500 RSUs have been granted to certain directors and employees of the Group under the amended and restated 2014 Equity Incentive Plan, respectively. Each RSUs is settled by transfer of one ordinary share of the Company to the grantee upon on a date as soon as practicable after the RSUs vest.

34 SHARE-BASED PAYMENTS (CONTINUED)

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

Movements in the number of RSUs outstanding is as follows:

	Number of RSUs
As of January 1, 2018	**20,303,500**
Granted	**3,909,500**
Forfeited	**(539,000)**
Vested	**(6,197,000)**
Outstanding balance as of December 31, 2018	**17,477,000**
As of January 1, 2017	11,131,500
Granted	13,187,500
Forfeited	(305,000)
Vested	(3,710,500)
Outstanding balance as of December 31, 2017	20,303,500

(c) Expected Retention Rate

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

34 SHARE-BASED PAYMENTS (CONTINUED)

(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".

35 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,	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**71,850**	44,395
Later than 1 year and no later than 5 years	**76,263**	108,261
Later than 5 years	**713**	5,530
	148,826	158,186

36 CONTINGENCIES

The Group did not have any other material contingent liabilities as of December 31, 2018 (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

37 BUSINESS COMBINATION

(a) Acquisition of New Classics Media

On August 13, 2018, the Group entered into a share purchase agreement with selling shareholders (including a subsidiary of Tencent) to acquire 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. The acquisition was completed on October 31, 2018 and has significantly increased the Group's market share in the TV and film industry and complements the Group's existing divisions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

37 BUSINESS COMBINATION (CONTINUED)

(a) Acquisition of New Classics Media (Continued)

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

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

Notes:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

37 BUSINESS COMBINATION (CONTINUED)

(a) Acquisition of New Classics Media (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

37 BUSINESS COMBINATION (CONTINUED)

(a) Acquisition of New Classics Media (Continued)

Notes:

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

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

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

— differences in the accounting policies between the Group and the subsidiary; and

— the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from January 1, 2018, together with the consequential tax effects.

(b) Purchase consideration – cash outflow

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

38 CASH FLOW INFORMATION

(a) Cash generated from operating activities

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Profit for the year	**912,398**	562,692
Adjustments for:		
Income tax expense	**165,403**	83,038
Compensation charges for post-combination services	**16,667**	1,589
Share-based compensation expenses	**152,227**	137,446
Contribution from Tencent	**—**	2,616
Depreciation of property, plant and equipment	**17,874**	22,239
Amortization of intangible assets	**146,177**	154,036
Loss on disposals of property, plant and equipment	**643**	327
(Reversal of)/provision for doubtful receivables	**(36,822)**	26,019
Provision for inventory obsolescence	**63,773**	39,619
Impairment of investment in an associate	**7,170**	—
Impairment loss of television series and film rights	**300**	—
Impairment provision for intangible assets	**—**	156,254
Share of net profit of investments accounted for using equity method	**(111,339)**	(66,337)
Gain on disposals of subsidiaries	**(127,911)**	(60,888)
Accretion charges of put option liability	**—**	2,905
Fair value change of derivative financial assets	**—**	(30,094)
Fair value gain of investments in redeemable shares of associates	**—**	(97,492)
Interest income on bank deposits	**(200,817)**	(48,212)
Fair value gain on financial assets at fair value through profit or loss	**(94,810)**	(5,002)
Fair value gain on financial liabilities at fair value through profit or loss	**(108,938)**	—
Interest income on investments and loans receivable	**—**	(9,183)
Interest expense	**48,510**	29,843
Guarantee expense	**3,422**	2,422
Foreign exchange losses/(gains), net	**96,557**	(24,640)
Interest income on IPO subscription deposits	**—**	(55,575)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

38 CASH FLOW INFORMATION (CONTINUED)

(a) Cash generated from operating activities (Continued)

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Changes in operating assets and liabilities:		
Trade and notes receivables	**487,375**	(240,722)
Inventories	**33,572**	(123,481)
Television series and film rights	**(408,056)**	—
Prepayments, deposits and other assets	**46,748**	(192,059)
Investments in TV drama participation	**25,128**	(25,128)
Trade payables	**193,712**	237,173
Deferred revenue	**(96,487)**	124,107
Other payables and accruals	**(184,878)**	360,099
Net cash provided by operating activities	**1,047,598**	963,611

(b) Non-cash investing and financing activities

During the years ended December 31, 2018 and 2017, there are no material non-cash investing and financing transactions other than the acquisition of New Classics Media as described in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

38 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	Interest payable RMB'000	Payables to financial investors in TV programs and film production RMB'000	Consideration payable related to the acquisition of Cloudary's non-controlling interests (current) RMB'000	Total RMB'000
As of January 1, 2018	**475,000**	**—**	**620**	**—**	**500**	**476,120**
Foreign exchange adjustments	**—**	**—**	**—**		**—**	**—**
Cash flows	**—**	**(72,627)**	**(46,249)**	**(37,700)**	**—**	**(156,576)**
Business combination	**380,000**	**983,072**	**9,124**	**297,577**	**—**	**1,669,773**
Other non-cash movements	**(475,000)**	**475,000**	**41,708**	**15,999**	**—**	**57,707**
As of December 31, 2018	**380,000**	**1,385,445**	**5,203**	**275,876**	**500**	**2,047,024**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

39 SUBSIDIARIES AND CONTROLLED STRUCTURED ENTITIES

Particulars of the principal subsidiaries of the Group as of the date of these consolidated financial statements and as of December 31, 2018 are set out below:

NCompany 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, intellectual property operations and online advertising
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
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, intellectual property operations and online advertising
New Classics Television Entertainment Investment Company Limited ("新麗電視文化投資有限公司")	PRC	September 24, 2008	RMB50,000,000	100.00%	Television series and film production
New Classics Movie (Zhejiang) Company Limited ("新麗電影(浙江)有限公司")	PRC	January 4, 2010	RMB10,000,000	100.00%	Television series and film production

Note:

(a) The English names of the subsidiaries represent the best effort by the Company's management to translate their Chinese names, as these subsidiaries do not have official English names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

40 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
Tencent Technology (Beijing) Company Limited	Fellow subsidiary
Tencent Mobility 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 Animation and Comics Co., Ltd.	Fellow subsidiary
Beijing Jinjiang Networking Technology 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
Shenzhen Lazy Online Technology Co., Ltd.	Joint venture of the Group (Note 24)
Shanghai Chuwan Information Technology Co. Ltd.	Associate of the Group
Ningbo Yuewen Yuandongli Culture Industry Investment LLP	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
Chongqing Caiseqianbi Animation Design Co., Ltd.	Associate of the Group
Yuedong Culture Co., Ltd.	Associate of the Group
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
Tianjin Maoyan Weiying Media Co.,Ltd	Associate of the ultimate holding company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

40 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fellow subsidiaries	**279,318**	170,631
Associates of the ultimate holding company	**133,924**	72,268
Associates of the Group	**25,912**	3,788
Joint ventures of the Group	**45,336**	3,774
	484,490	250,461

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

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fellow subsidiaries	**297,361**	351,275
Associates of the ultimate holding company	**1,394**	11,242
Associates of the Group	**66,803**	22,963
Joint ventures of the Group	**7,752**	3,917
	373,310	389,397

(c) Interest income

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fellow subsidiaries	**—**	9,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Interest expense

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Fellow subsidiaries	**11,861**	14,277

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) Acquisition of New Classics Media

As disclosed in Note 37, the Group acquired 100% equity interest of New Classics Media, out of which 23,065,815 series A preferred shares of New Classics Media was purchased from Tencent Mobility Limited, a fellow subsidiary of the Group, in October 2018. The total consideration paid to the fellow subsidiary was amounting to approximately RMB2,951,332,000 in the form of the newly issuance ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Balances with related parties

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade receivables (Note)		
Fellow subsidiaries	**758,817**	434,562
Associates of the ultimate holding company	**60,786**	25,326
Associates of the Group	**25,053**	—
Joint ventures of the Group	**6,420**	539
	851,076	460,427
Prepayments, deposits and other receivables		
Fellow subsidiaries	**24,853**	434
Associates of the ultimate holding company	**20**	266
Associate of the Group	**6,113**	—
	30,986	700

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Balances with related parties (Continued)

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,	
	2018	2017
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries	**55,401**	83,153
Associates of the ultimate holding company	**12**	1
Associates of the Group	**1,871**	736
Joint ventures of the Group	**1,779**	1,470
	59,063	85,360

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Other payables and accruals		
Fellow subsidiaries (Note)	**1,138,827**	97,521
Associates of the ultimate holding company	**900**	—
Associates of the Group	**3,391**	12,300
Joint venture of the Group	**—**	32,200
	1,143,118	142,021

Note: Except for the unsecured loan payable of RMB700,000,000 due to a fellow subsidiary, which bears a fixed interest rate of 10.0% per annum and will be repayable on August 12, 2019, the payables due to related parties are unsecured, interest-free and are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018

40 RELATED PARTY TRANSACTIONS (CONTINUED)

(h) Key management personnel compensations

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Salaries, wages and bonuses	**12,267**	15,940
Other social security costs, housing benefits and other employee benefits	**212**	284
Pension costs — defined contribution plans	**303**	195
Share-based compensation expenses	**8,077**	14,450
	20,859	30,869

41 SUBSEQUENT EVENTS

There were no material subsequent events during the period from December 31, 2018 to the approval date of these consolidated financial statements by the Board of Directors on March 18, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

42 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**14,334,243**	5,517,340
Prepayments, deposits and other assets	**1,672**	—
	14,335,915	5,517,340
Current assets		
Property, plant and equipment	**808**	—
Prepayments, deposits and other assets	**2,986,351**	1,355,685
Term deposits	**473,561**	653,420
Cash and cash equivalents	**3,130,390**	5,674,359
	6,591,110	7,683,464
Total assets	**20,927,025**	13,200,804
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**649**	569
Shares held for RSU scheme	**(21)**	(23)
Share premium	**16,699,944**	12,386,853
Other reserves	**589,499**	556,462
Retained earnings	**145,695**	43,732
Total equity	**17,435,766**	12,987,593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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

(a) Financial position of the Company (Continued)

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
LIABILITIES		
Non-current liabilities		
Financial liabilities at fair value through profit or loss	**1,954,165**	—
Current liabilities		
Other payables and accruals	**346,640**	213,211
Financial liabilities at fair value through profit or loss	**1,190,454**	—
	3,491,259	213,211
Total liabilities	**3,491,259**	213,211
Total equity and liabilities	**20,927,025**	13,200,804

The statement of financial position of the Company was approved by the Board of Directors on March 18, 2019 and was signed on its behalf.

Wu Wenhui
Director

Liang Xiaodong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

42 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, 2018	**556,462**	**43,732**
Comprehensive income		
Profit for the year	**—**	**101,963**
Other comprehensive income		
– Currency translation differences	**(119,190)**	**—**
Total comprehensive (loss)/income for the year	**(119,190)**	**101,963**
Transaction with owners		
Share-based compensation expenses (Note 34)	**152,227**	**—**
Transactions with owners in their capacity for the year	**152,227**	**—**
As of December 31, 2018	**589,499**	**145,695**

	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 (loss)/income for the year	(502,928)	33,372
Transaction with owners		
Share-based compensation expenses (Note 34)	136,960	—
Transactions with owners in their capacity for the year	136,960	—
As of December 31, 2017	556,462	43,732

DEFINITIONS

"Adaptation Rights"		the rights for adaptation of the Literary Work into movies and television series by real characters, animated movies, games, reality products developed by the adapted products and trademarks of the Literary Work (including sub-licensing rights thereof);
"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;
"Advertisement Cooperation Agreement"		an agreement entered into among Shanghai Yuewen, Tencent Computer and Tenpay on January 4, 2018 in relation to the advertisement services provided by Tencent Computer and Tenpay to Shanghai Yuewen;
"AGM"	:	the forthcoming annual general meeting of the Company to be held on May 17, 2019;
"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;
"Audio and Comics Cooperation Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on audio and comics work;
"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;

DEFINITIONS

"C-Hero Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands
"Cang Qiong Entertainment"		Cang Qiong Entertainment (Tianjin) Culture Communications Co., Ltd. (蒼穹互娛 (天津) 文化傳播有限公司), a company established in the PRC, an associate of Tencent and a connected person 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;
"Cloud Services and Technical Services Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf 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;
"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;
"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;

DEFINITIONS

"Comprehensive Cooperation Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of the Sogou Group) in relation to, among other things, cooperation on game, literary and audio work;
"connected person(s)"		has the meaning ascribed to it under the Listing Rules;
"Consolidated Affiliated Entities"	:	the entities we control through the Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries;
"Cooperation Agreement"		the cooperation agreement on adaptation, publication and peripheral products entered into between Shanghai Yueting (on behalf of the Group) and Tianwen Kadokawa (on behalf of the Kadokawa Group) on October 19, 2018 in relation to cooperation on adaptation, publication and peripheral products;
"Cooperation Agreement on the Copyright"		an agreement entered into between Shanghai Yueting and New classics Media Corporation on May 18, 2018 in relation to cooperation on copyrights and joint investment;
"Copyright Purchase Framework Agreement"		the framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 13, 2018, in relation to, among other things, cooperation on license of adaptation rights by the Retained Tencent Group to the Group;
"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, namely Wen VIE and VIE;
"Contractual Arrangements Date"	:	in the case of the Wen VIE, June 27, 2017; and in the case of the NCM VIE, August 13, 2018;
"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;
"Ding Dong-D Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands

DEFINITIONS

"Director(s)"	:	the director(s) of our Company;
"Distribution Framework Agreement"		the framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018, in relation to, among other things, cooperation on distribution of television series, web series and films on the platforms of the Retained Tencent Group;
"Equity Pledge Agreements"	:	the equity pledge agreements entered into between the WFOEs, the Registered Shareholders and the PRC Holdco(s) on the Contractual Arrangements Date, where the Registered Shareholder(s) agreed to pledge all their respective equity interests in the PRC Holdco(s) that they owned, including any interest or dividend paid for the Shares, to the WFOE(s)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 the PRC Holdco(s) entered into with each of the WFOE(s) on the Contractual Arrangements Date, pursuant to which, in exchange for a monthly service fee, the PRC Holdco(s) agreed to engage the WFOE(s) as each of their/its exclusive provider of technical support, consultation and other services;
"Exclusive Option Agreements"	:	the exclusive option agreements entered into among the WFOE(s), the PRC Holder(s) and the Registered Shareholders on the Contractual Arrangements Date, pursuant to which, the WFOE(s) have the rights to require the Registered Shareholders to transfer any or all their equity interests in the PRC Holdco(s) to the WFOE(s) 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; and in the case of the NCM VIE, the lowest price as permitted by PRC laws);
"Game Cooperation Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on game distribution to each other's platforms;

DEFINITIONS

"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 (on behalf of the Group) and Tencent Computer (on behalf 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;
"IP License Agreement"		an agreement entered into between Shanghai Yuewen and Cang Qiong Entertainment on February 6, 2018 in relation to the license of certain Adaptation Rights with respect to the Literary Work;
"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;
"Joint Filming Agreement I"		an agreement entered into between Yuewen Film and Xinli TV on January 4, 2018 in relation to their joint investment and filming of the TV Series;
"Joint Filming Agreement II"		an agreement entered into between Yuewen Film and Tencent Pictures on February 6, 2018 in relation to their joint investment and filming of the TV Series;

DEFINITIONS

"Joint Investment Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on joint investment;
"Kadokawa Group"		Tianwen Kadokawa and its associates and other present and future entities controlled through contractual arrangements;
"Linzhi Tencent"	:	Linzhi Tencent Technology Company Ltd. (林芝騰訊科技有限公司), an indirect subsidiary of Tencent established in the PRC on October 26, 2015, the equity interest of which is ultimately held by PRC nationals;
"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;
"Literary, Audio and Comics Work Cooperation Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on literary, audio and comics work;
"Literary Work"		an original literary work, being the subject matter in relation to the license granted by Shanghai Yuewen to Cang Qiong Entertainment pursuant to the IP License Agreement;
"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;

DEFINITIONS

"Media Production Consignment Agreement"		the framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018, in relation to, among other things, production of television series, web series and films by the Group for the Retained Tencent Group;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Classics Media"	:	New Classics Media Holdings Limited, previously known as "Qiandao Lake Holdings Limited", a company established in Cayman Island on 18 May 2018. Its subsidiaries are principally engaged in production and distribution of television series.
"New Classics Media Corporation"	:	New Classics Media Corporation(新麗傳媒集團有限公司), a company established in the PRC on February 7, 2007, having its registered address at C1-018-A, Hengdian Film and Television Industry Experimental Zone, Zhejiang
"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. (寧波梅山保稅港區閱寶投資有限公司), a company established in the PRC on April 25, 2017 and a shareholder of each of the PRC Holdcos;
"Novel Creation and Solicitation Cooperation Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on novel creation and solicitation;
"Online Platform Cooperation CCTs"	:	the cooperation entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) under the Online Platform Cooperation Framework Agreement;

DEFINITIONS

"Online Platform Cooperation Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (on behalf of of the Group) and Tencent Computer (on behalf 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;
"Payment Services Cooperation Framework Agreement"	:	the framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf 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 the Contracutal Arrangements Date, pursuant to which the Registered Shareholders irrevocably appointed the WFOE(s) 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 Holdco(s);
the "PRC" or "China"	:	the People's Republic of China;
"PRC Holdcos"	:	in the case of the Wen VIE, Shanghai Hongwen and Shanghai Yuewen; and in the case of the NCM VIE, New Classics Media Corporation;
"Promotion Cooperation Framework Agreement"	:	the framework agreement established between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf 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"	:	in the case of the Wen VIE, 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; and in the case of the NCM VIE, the registered shareholders of the PRC Holdco, namely Linzhi Tencent, Xishi Investment, Mr. Huayi Cao, Ms. Yaqian Qu, and Shiji Kaixuan, which own the PRC Holdco as to 40.0%, 6.7%, 34.0%, 15.3% and 4.1%;
"Relevant Period" or "Reporting Period"	:	the year ended December 31, 2018;
"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 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;

DEFINITIONS

"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;
"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 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;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of USD0.0001 each;
"Share Purchase Agreement"		the share purchase agreement entered the Founder into among the Company, Tencent Mobility, C-Hero Limited, Ms. Yaqian Qu, Ding Dong-D Limited and X-Poem Limited dated August 13, 2018, in relation to, among other things, the purchase of 100% equity interests of the NCM Holdings by the Company from the Vendors;
"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;
"Shiji Kaixuan"	:	Shenzhen Shiji Kaixuan Technology Limited (深圳市世紀凱旋科技有限公司), an indirect subsidiary of Tencent incorporated with limited liability in PRC in January 13, 2004, the equity interest of which is held by PRC nationals;

DEFINITIONS

"Sogou"		Sogou Inc., a company incorporated in the Cayman Islands, whose American Depositary Shares are listed on the New York Stock Exchange under the symbol "SOGO", an associate of Tencent and a connected person of the Company;
"Sogou Group"		certain subsidiaries or variable interest entities of Sogou, including Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京搜狗信息服務有限公司), Beijing Sogou Network Technology Co., Ltd. (北京搜狗網絡技術有限公司), Tianjin Sogou Network Technology Co., Ltd. (天津搜狗網絡技術有限公司), Chengdu Easypay Technology Co., Ltd. (成都吉易付科技有限公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息技術有限公司);
"Sogou Technology"		Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Sogou;
"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;
"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;
"Tencent"	:	Tencent Holdings Limited, one of our Controlling Shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700);
"Tencent Computer"	:	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent;
"Tencent Group"	:	Tencent and its subsidiaries from time to time, including our Group;
"Tencent Growthfund"	:	Tencent Growthfund Limited, one of our Controlling Shareholders, a limited liability company incorporated under the laws of the Cayman Islands as an investment vehicle on May 25, 2017 and a wholly-owned subsidiary of Tencent;

DEFINITIONS

"Tencent Mobility"		Tencent Mobility Limited, a company incorporated with limited liability in Hong Kong, a wholly owned subsidiary of Tencent and a connected person of the Company;
"Tencent Pictures"		Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), a company established in the PRC, a subsidiary and associate of Tencent and a connected person of the Company;
"Tenpay"		Tenpay Payment Technology Co., Ltd. (財付通支付科技有限公司), a company established in the PRC and a subsidiary of Tencent Computer;
"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 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;
"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;
"Tianwen Kadokawa"		Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd., a company established in Guangzhou, PRC, which is owned over 30% by Tencent and therefore is an associate of Tencent and a connected person of the Company;
"USD"	:	the lawful currency of the United States;
"Virtual Currency Purchase Agreement"		an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, purchase of virtual currency of the Group by the Retained Tencent Group.

DEFINITIONS

"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;
"WFOE(s)"	:	in the case of the Wen VIE Shanghai Yueting and Shanghai Yuechao, and in the case of the NCM VIE, Xinli (Tianjin);
"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.
"Xinli (Tianjin)"	:	Xinli (Tianjin) Media Technology Co., Ltd. (新麗(天津)傳媒科技有限公司), a company incorporated with limited liability in PRC and an indirect wholly owned subsidiary of New classics Media;
"Xinli TV"		Xinli TV Culture Investment Co., Ltd. (新麗電視文化投資有限公司), a company established in the PRC with limited liability;
"Xishi Investment"	:	Shanghai Xishi Investment Management Enterprise (Limited Partnership) (上海喜詩投資管理企業(有限合夥)), a limited partnership established in PRC on March 10, 2011, the limited partnership interest of which were held by the Mr. Huayi Cao and the individual shareholders of the X-Poem Limited who are PRC nationals;
"X-Poem Limited"	:	a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands
"Yuewen Film"		Shanghai Yuewen Film and Television Culture Communication Co., Ltd. (上海閱文影視文化傳播有限公司), one of the consolidated affiliated entities of the Company, and a company established in the PRC with limited liability;

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