阅文集团
CHINA LITERATURE

China Literature Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 772

2019
INTERIM REPORT

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
Mr. Cao Huayi *(appointed on May 17, 2019)*
Ms. Chen Fei *(appointed on May 17, 2019)*
Ms. Li Ming *(resigned on May 17, 2019)*
Mr. Yang Xiang Dong *(resigned on May 17, 2019)*

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. Lin Haifeng *(appointed on May 17, 2019)*
Mr. Yang Xiang Dong *(resigned on May 17, 2019)*
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. Chen Fei *(appointed on May 17, 2019)*
Ms. Li Ming *(resigned on May 17, 2019)*

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

CORPORATE INFORMATION

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

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Pudong XinQu
Shanghai
PRC

Principal Place of Business in Hong Kong

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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 PERFORMANCE HIGHLIGHTS

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

I am pleased to present our interim report for the six months ended June 30, 2019 to our shareholders.

COMPANY STRATEGIC HIGHLIGHTS

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

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

BUSINESS REVIEW

Online Business

Strengthened Leadership Position

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

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

CHAIRMAN'S STATEMENT

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

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

Introduction of Free-to-Read Model

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

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

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

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

IP Operations

Integration of NCM

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

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

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

Proprietary IP Operation

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

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

CHAIRMAN'S STATEMENT

International Expansion

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

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

OUTLOOK

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

APPRECIATION

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

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

Hong Kong, August 12, 2019

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

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

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

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

Notes:

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

Revenues from intellectual property operations increased by 280.3% year-over-year to RMB1,215.0 million for the six months ended June 30, 2019. The increase was primarily due to (i) the contribution of RMB659.6 million in intellectual property operations revenues generated by NCM during the first half of 2019 as we acquired its business in October 2018, and (ii) an increase in revenues from IP-related self-operated online games, co-produced animations and co-invested TV and web series, reflecting our increasing participation in the IP adaptation businesses.

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Net reversal of/(provision for) impairment losses on financial assets. The impairment loss on financial assets was in relation to the provision for doubtful receivables. For the six months ended June 30, 2019, we reversed a provision for doubtful receivables of RMB1.5 million on a net basis as a result of the collection of these receivables which were impaired in prior periods.

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

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

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

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

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company was RMB392.7 million for the six months ended June 30, 2019, as compared to RMB505.8 million for the six months ended June 30, 2018.

Segment Information:

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

The following table sets forth a breakdown of our revenues, cost of revenues, gross profit and gross profit margin by segment for the six months ended June 30, 2019 and 2018:

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

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

OTHER FINANCIAL INFORMATION

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

Notes:

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

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

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

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

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

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

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

Non-GAAP Financial Measure:

To supplement the consolidated financial statements of our Group prepared in accordance with IFRS, certain non-GAAP financial measures, namely non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit for the period, non-GAAP net margin, non-GAAP profit attributable to equity holders of the Company, non-GAAP basic EPS and non-GAAP diluted EPS as additional financial measures, have been presented in this interim results announcement for the convenience of readers. These unaudited non-GAAP financial measures should be considered in addition to, and not as a substitute for, measures of our Group's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies. In addition, non-GAAP adjustments include relevant non-GAAP adjustments for the Group's material associates based on available published financials of the relevant material associates, or estimates made by the Company's management based on available information, certain expectations, assumptions and premises.

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

The following tables set forth the reconciliations of our Group's non-GAAP financial measures for the six months ended June 30, 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

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

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

Notes:

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

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

Capital Structure

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

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

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

Liquidity and Financial Resources

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

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

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

As of June 30, 2019, our Group had not used any financial instruments for hedging purposes.

Capital Expenditures and Long-term Investments

Our Group's capital expenditures primarily included expenditures for intangible assets, such as copyrights of contents and software, and for property, plant and equipment, such as computer equipment and leasehold improvements. Our capital expenditures and long-term investments for the six months ended June 30, 2019 amounted to RMB305.6 million, compared to RMB123.0 million for the six months ended June 30, 2018, representing a year-over-year increase of RMB182.6 million which was primarily driven by our investments in associates and joint ventures. Our long-term investments were made in accordance with our general strategy of investing in or acquiring businesses that are complementary to our main business. We plan to fund our planned capital expenditures and long-term investments using cash flows generated from our operations and the IPO Proceeds.

Foreign Exchange Risk Management

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB, HKD and USD. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. Our Group manages foreign exchange risk by performing regular reviews of our Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary. We did not hedge against any fluctuations in foreign currency as of June 30, 2019.

Employee

As of June 30, 2019, we had nearly 1,900 full-time employees, most of whom were based in China, primarily at our headquarters in Shanghai, with the rest based in Beijing, Suzhou and various other cities in China.

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

New Classics Media

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

CORPORATE GOVERNANCE

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

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

MODEL CODE FOR DEALING IN SECURITIES BY DIRECTORS

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

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended June 30, 2019.

AUDIT COMMITTEE

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

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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

CHANGES OF DIRECTORS' INFORMATION

Changes in Directors' information since the publication of the Company's 2018 annual report are set out below:

- Ms. Li Ming has resigned as a Non-executive Director and a member of Strategy and Investment Committee of the Company with effect from May 17, 2019.
- Mr. Yang Xiang Dong has resigned as a Non-executive Director and a member of Audit Committee of the Company with effect from May 17, 2019.
- Ms. Chen Fei has been appointed as a Non-executive Director and a member of Strategy and Investment Committee of the Company with effect from May 17, 2019.
- Mr. Lin Haifeng has been appointed as a member of Audit Committee of the Company with effect from May 17, 2019.
- Mr. Cao Huayi has been appointed as a Non-executive Director of the Company with effect from May 17, 2019.
- Mr. Wu Wenhui has been appointed as a director of Webnovel Private Limited with effect from April 3, 2019.
- Mr. Liang Xiaodong has resigned as a director of China Reading (Hong Kong) Limited with effect from June 3, 2019.
- Ms. Leung Sau Ting Miranda has resigned as a director of the Lion Academy Trust since June 2019 and has been appointed as a director of Indochina Starfish Foundation since July 2019.

Reference is made to the announcement of the Company dated April 2, 2019, in relation to Mr. James Gordon Mitchell, the chairman of the board of directors and a non-executive director of the Company, of his involvement in a securities class action lawsuit filed against NIO Inc. (NYSE: NIO) ("NIO") in the Supreme Court of the State of New York County of Kings regarding an alleged misrepresentation in the registration statement filed by NIO on September 11, 2018 and the prospectus filed on September 12, 2018. Mr. James Gordon Mitchell currently serves as a director of NIO and, together with certain current and former directors and senior officers of NIO and the underwriters of NIO's offering, is named as one of the defendants in the lawsuit. The lawsuit is in a very preliminary stage and does not involve the Company, its subsidiaries and consolidated affiliated entities.

To the best knowledge of the Board, the lawsuit will not have material adverse impact on the Group's ordinary business, operations and financial positions.

OTHER INFORMATION

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 June 30, 2019, the Group:

- used approximately RMB683.7 million for expanding the Group's online reading business and sales and marketing activities;
- used approximately RMB258.5 million for expanding the Group's involvement in the development of derivative entertainment products adapted from its online literary titles; and
- used approximately RMB1,843.4 million for funding our potential investments, acquisitions and strategic alliances.

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

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

As of June 30, 2019, 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 controlled corporations	2,400,000	Long position	0.23
Mr. James Gordon Mitchell	Beneficial owner	1,352	Long position	0.00
Mr. Cao Huayi[4]	Interest in controlled corporations	49,466,635	Long position	4.84

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	Tencent Holdings Limited	Beneficial owner	7,114,040[5]	0.07
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Mr. Lin Haifeng[6]	Tencent Holdings Limited	Beneficial owner	260,757	0.00
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	0.00
Ms. Chen Fei	Tencent Holdings Limited	Beneficial owner	96,599[7]	0.00
	Shenzhen Litong Industry Investment Fund Co., Ltd.	Beneficial owner	125,000,000	25.00
Mr. Wu Wenhui[8]	Shanghai Hongwen	Interest of controlled corporation	3,462,000	34.62
Mr. Wu Wenhui[8]	Shanghai Yuewen	Interest of controlled corporation	3,462,000	34.62

Notes:

(1) The calculation is based on the total number of 1,022,218,846 Shares in issue as of June 30, 2019.

(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) 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 41,320,586 Shares and 8,146,049 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the Share Purchase Agreement, respectively.

(5) These interests comprise (i) 1,944,895 shares of Tencent, (ii) 88,860 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 5,080,285 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.

(6) These interests comprise (i) 110,807 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.

(7) These interests comprise (i) 31,774 shares of Tencent, (ii) 23,455 shares underlying Tencent in respect of the awarded shares granted to Ms. Chen Fei under share award schemes of Tencent, and (iii) 41,370 shares underlying Tencent in respect of the options granted to Ms. Chen Fei under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.

(8) 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.

Save as disclosed above, as of June 30, 2019, none of the Directors and chief executives of the Company has 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.

Furthermore, save as disclosed in the foregoing, during the six months ended 30 June 2019, none of the Directors or chief executives (including their spouses and children under the age of 18) of the Company had any interests in or was granted any right to subscribe in any shares, underlying shares, or debentures of the Company or any of its associated corporations, or had exercised any such rights.

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

As of June 30, 2019, 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	577,643,604	Long position	56.51
THL A13 Limited[2]	Beneficial owner	268,600,500	Long position	26.28
Qinghai Lake Investment Limited[2]	Beneficial owner	230,705,634	Long position	22.57
Tencent Mobility Limited[2]	Beneficial owner	78,337,470	Long position	7.66
CAP IV, L.L.C.[3]	Interest in controlled corporations	68,141,592	Long position	6.67
Carlyle Holdings II GP L.L.C.[3]	Interest in controlled corporations	68,141,592	Long position	6.67
The Carlyle Group L.P.[3]	Interest in controlled corporations	68,141,592	Long position	6.67

Notes:

(1) The calculation is based on the total number of 1,022,218,846 Shares in issue as of June 30, 2019.

(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 the 577,643,604 Shares directly held by THL A13, Qinghai Lake and Tencent Mobility Limited in aggregate.

(3) 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.

Save as disclosed above, as of June 30, 2019, 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).

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.

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 six months ended June 30, 2019	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, 2019	17,477,000
Granted	235,000
Forfeited	(325,500)
Vested	(1,112,500)
Outstanding balance as of June 30, 2019	16,274,000

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 33 to 81, which comprises the consolidated statement of financial position of China Literature Limited (the "Company") and its subsidiaries (together, the "Group") as at June 30, 2019 and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 12, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2019

	Note	Six months ended June 30, 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenues	8	**2,970,951**	2,282,900
Cost of revenues	9	**(1,349,801)**	(1,086,401)
Gross profit		**1,621,150**	1,196,499
Interest income	10	**85,589**	84,901
Other gains, net	11	**269,572**	184,511
Selling and marketing expenses	9	**(976,720)**	(527,272)
General and administrative expenses	9	**(473,400)**	(333,947)
Net reversal of/(provision for) impairment losses on financial assets		**1,531**	(826)
Operating profit		**527,722**	603,866
Finance costs	12	**(93,464)**	(48,606)
Share of profit of associates and joint ventures	18	**82,482**	50,984
Profit before income tax		**516,740**	606,244
Income tax expense	13	**(123,520)**	(101,931)
Profit for the period		**393,220**	504,313
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of an associate		**(415)**	–
Currency translation differences		**(18,144)**	90,122
Total comprehensive income for the period		**374,661**	594,435
Profit/(loss) attributable to:			
– Equity holders of the Company		**392,722**	505,810
– Non-controlling interests		**498**	(1,497)
		393,220	504,313
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		**374,168**	595,939
– Non-controlling interests		**493**	(1,504)
		374,661	594,435
Earnings per share (expressed in RMB per share)			
– Basic earnings per share	14(a)	**0.39**	0.58
– Diluted earnings per share	14(b)	**0.39**	0.57

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2019

	Note	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**41,188**	47,696
Right-of-use assets	4.1	**124,983**	–
Intangible assets	17	**12,147,751**	12,141,157
Investments in associates and joint ventures	18	**869,196**	680,918
Financial assets at fair value through profit or loss	20	**435,000**	444,137
Deferred income tax assets	21	**129,614**	95,559
Prepayments, deposits and other assets	23	**158,330**	147,501
		13,906,062	13,556,968
Current assets			
Inventories	24	**875,486**	129,693
Television series and film rights	25	**2,501,944**	2,857,056
Financial assets at fair value through profit or loss	20	**–**	26,804
Trade and notes receivables	26	**1,617,010**	1,830,396
Prepayments, deposits and other assets	23	**821,049**	609,900
Term deposits		**838,969**	481,561
Cash and cash equivalents		**5,672,376**	8,342,228
		12,326,834	14,277,638
Total assets		**26,232,896**	27,834,606
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	22	**649**	649
Treasury shares	22	**(6,254)**	–
Shares held for RSU scheme	22	**(19)**	(21)
Share premium	22	**16,405,025**	16,456,555
Other reserves	27	**950,641**	898,150
Retained earnings		**1,440,867**	1,048,145
		18,790,909	18,403,478
Non-controlling interests		**74**	11,567
Total equity		**18,790,983**	18,415,045

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2019

	Note	**As of June 30, 2019 RMB'000 (Unaudited)**	As of December 31, 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**–**	380,000
Lease liabilities	4.1	**57,216**	–
Deferred income tax liabilities	21	**435,501**	449,808
Deferred revenue		**34,615**	39,277
Financial liabilities at fair value through profit or loss	19	**639,022**	1,954,165
		1,166,354	2,823,250
Current liabilities			
Borrowings	29	**919,095**	1,385,445
Lease liabilities	4.1	**65,278**	–
Trade payables	30	**1,160,978**	1,131,067
Other payables and accruals	31	**1,868,902**	1,818,151
Deferred revenue		**972,771**	1,005,319
Current income tax liabilities		**166,057**	65,375
Financial liabilities at fair value through profit or loss	19	**1,122,478**	1,190,954
		6,275,559	6,596,311
Total liabilities		**7,441,913**	9,419,561
Total equity and liabilities		**26,232,896**	27,834,606

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

On behalf of the Board

Wu Wenhui
Director

Liang Xiaodong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018

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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	**138,127**	531,325
Income tax paid	**(140,309)**	(60,794)
Net cash (used in)/generated from operating activities	**(2,182)**	470,531
Cash flows from investing activities		
Placements of term deposits with initial term of over three months	**(826,100)**	–
Receipts from maturity of term deposits with initial term of over three months	**472,612**	639,620
Investments in associates and joint ventures	**(199,061)**	(37,200)
Purchase of property, plant and equipment	**(5,792)**	(5,434)
Purchase of intangible assets	**(88,757)**	(80,334)
Proceeds from disposals of property, plant and equipment	**113**	–
Proceeds from disposal of investment in an associate	**67,916**	–
Net cash outflow arising from deemed disposal of a subsidiary	**–**	(101,094)
Interest received	**114,356**	77,688
Dividends received	**45,196**	–
Settlement of contingent consideration payable	**(1,192,777)**	–
Payments for acquisition of financial assets at fair value through profit or loss	**(12,000)**	–
Settlement of forward foreign currency contract	**37,018**	–
Net cash (used in)/generated from investing activities	**(1,587,276)**	493,246
Cash flows from financing activities		
Proceeds from borrowings	**54,650**	–
Repayments of borrowings	**(901,000)**	–
Finance costs paid	**(99,427)**	(10,415)
Payment for guarantee fee	**–**	(3,073)
Payment for acquisition of non-controlling interests	**(10,799)**	(5,000)
Payments for repurchase of ordinary shares	**(15,856)**	–
Repayments to financial investors in TV programs and film production	**(61,094)**	–
Dividends paid to non-controlling interests in a subsidiary	**(7,981)**	–
Principal elements of lease payments	**(22,050)**	–
Proceeds from capital injection to a subsidiary	**2,450**	–
Net cash flows used in financing activities	**(1,061,107)**	(18,488)
Net (decrease)/increase in cash and cash equivalents	**(2,650,565)**	945,289
Cash and cash equivalents at beginning of the period	**8,342,228**	7,502,430
Exchange (losses)/gains on cash and cash equivalents	**(19,287)**	61,858
Cash and cash equivalents at end of the period	**5,672,376**	8,509,577

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "Group"), are principally engaged in the provision of reading services (either free or paid), copyright commercialisation (either by self-operation or collaboration with others), writer cultivation and brokerage, operation of text work reading and related open platform, which are all based on text work, and the realisation of these activities through technology methods and digital media including but not limited to personal computers, Internet and mobile network in the People's Republic of China (the "PRC"). On October 31, 2018, the Group acquired 100% equity interest of New Classics Media Holdings Limited (or referred to as "New Classics Media" and previously known as "Qiandao Lake Holdings Limited"). New Classics Media and its subsidiaries are principally engaged in production and distribution of television series, web series and films in the PRC, which has further expanded the Group's intellectual property operation business, in particular for the production and distribution of film and TV programs.

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

The Interim Financial Information comprises the consolidated statement of financial position as of June 30, 2019, the related consolidated statement of comprehensive income for the six months then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Interim Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 BASIS OF PREPARATION

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

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below in Note 3.1, Note 4, Note 24 and Note 25, the accounting policies and method of computation used in the preparation of the Interim Financial Information are consistent with those used in the 2018 Financial Statements, which have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

3.1 New and amended standards adopted by the Group

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

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

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

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

4 CHANGES IN ACCOUNTING POLICY AND OTHER KEY ACCOUNTING POLICIES

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

4.1 Adjustments recognised on adoption of IFRS 16

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

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

4 CHANGES IN ACCOUNTING POLICY AND OTHER KEY ACCOUNTING POLICIES (CONTINUED)

4.1 Adjustments recognised on adoption of IFRS 16 (Continued)

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

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

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

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

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

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

4 CHANGES IN ACCOUNTING POLICY AND OTHER KEY ACCOUNTING POLICIES (CONTINUED)

4.1 Adjustments recognised on adoption of IFRS 16 (Continued)

(i) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

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

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

4 CHANGES IN ACCOUNTING POLICY AND OTHER KEY ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

5 ESTIMATES

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2018 Financial Statements.

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

6.1 Financial risk factors

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

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2018 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2019.

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

6.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and marketable securities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
(Unaudited)					
As of June 30, 2019					
Trade payables	**1,160,978**	**–**	**–**	**–**	**1,160,978**
Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable)	**1,662,604**	**–**	**–**	**–**	**1,662,604**
Borrowings	**919,095**	**–**	**–**	**–**	**919,095**
Financial liabilities at fair value through profit or loss (Note 19)	**995,116**	**361,937**	**–**	**–**	**1,357,053**
Lease liabilities (Note 4.1)	**65,278**	**38,241**	**18,913**	**62**	**122,494**
Total	**4,803,071**	**400,178**	**18,913**	**62**	**5,222,224**

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years 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 19)	1,190,954	942,176	450,863	–	2,583,993
Total	5,484,747	1,327,255	450,863	–	7,262,865

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

6.3 Fair values estimation

The table below analyses the Group's financial instruments carried at fair values, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair values as of June 30, 2019.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
Assets				
Financial assets at fair value through profit or loss	–	–	**435,000**	**435,000**
Liabilities				
Financial liabilities at fair value through profit or loss				
-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 portions)	–	–	**1,761,000**	**1,761,000**

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

6.3 Fair values estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair values as of December 31, 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss	–	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 portions)	–	–	3,144,619	3,144,619

There were no transfers of financial assets and liabilities between level 1, level 2 and level 3 during the six months ended June 30, 2019.

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.

6 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

6.3 Fair values estimation (Continued)

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 periods.

The following table presents the changes in level 3 financial instruments for the six months ended June 30, 2019.

	Financial assets RMB'000	Financial liabilities RMB'000
(Unaudited)		
Six months ended June 30, 2019		
Opening balance – December 31, 2018	**470,941**	**3,145,119**
Changes in fair value	**11,970**	**(194,116)**
Additions	**12,000**	**–**
Disposals	**(59,911)**	**–**
Settlement of contingent consideration payable	**–**	**(1,192,777)**
Currency translation differences	**–**	**3,274**
Closing balance – June 30, 2019	**435,000**	**1,761,500**

7 SEGMENT INFORMATION

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

As of June 30, 2018, the chief executive officers of the Group consider that the Group's operations are operated and managed as a single segment; accordingly no segment information is presented. As of June 30, 2019, with the developments of the Group's business and acquisition of New Classics Media, as a result of the evaluation, the chief executive officers of the Group have identified the following reportable segments and accordingly, the corresponding segment information for prior periods has also been restated.

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

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

As of June 30, 2019, the chief operating decision-makers assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are common costs incurred for these operating segments as a whole and therefore, they are not included in the measure of the segments' performance which is used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Interest income, net impairment loss on financial assets, other gains, net, finance costs, share of profit of investments accounted for using equity method and income tax expense are also not allocated to individual operating segment.

There were no material inter-segment sales during the six months ended June 30, 2019 and 2018. The revenues from external customers reported to the chief operating decision-makers are measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

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

7 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the chief operating decision-makers for the reportable segments for the six months ended June 30, 2019 and 2018 is as follows:

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

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

The reconciliation of gross profit to profit before income tax of individual period during the six months ended June 30, 2019 and 2018 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 six months ended June 30, 2019 and 2018.

As of June 30, 2019 and 2018, substantially all of the non-current assets other than financial instruments and deferred tax assets of the Group were located in PRC.

8 REVENUES

8.1 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:

(Unaudited) Six months ended June 30, 2019	**Online business**			**Intellectual property operations and others**		
	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	**864,133**	**359,042**	**245,769**	**781,108**	**88,799**	**2,338,851**
– Over time	**121,208**	**72,329**	**–**	**433,922**	**4,641**	**632,100**
	985,341	**431,371**	**245,769**	**1,215,030**	**93,440**	**2,970,951**

(Unaudited) Six months ended June 30, 2018	Online business			Intellectual property operations and others		
	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	975,683	472,851	283,030	316,990	84,219	2,132,773
– Over time	120,818	26,827	–	2,482	–	150,127
	1,096,501	499,678	283,030	319,472	84,219	2,282,900

9 EXPENSES BY NATURE

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Promotion and advertising expenses (Note a)	**712,198**	320,915
Content costs (Note b)	**556,089**	744,408
Employee benefits expenses	**413,405**	305,403
Production costs of television series and film rights	**322,278**	–
Platform distribution costs (Note c)	**197,064**	107,389
Payment handling costs	**167,140**	134,739
Amortisation of intangible assets (Note 17)	**83,301**	73,697
Cost of inventories sold	**50,815**	40,732
Game development outsourcing costs	**43,523**	2,700
Animation production costs	**37,413**	23,347
Professional service fees	**35,069**	46,066
Provision for inventory obsolescence	**32,910**	27,118
Depreciation of right-of-use assets	**31,343**	–
Bandwidth and server custody fees	**27,103**	29,248
Travelling, entertainment and general office expenses	**23,505**	16,789
Depreciation of property, plant and equipment (Note 16)	**10,968**	7,255
Auditors' remuneration		
– Audit services	**4,938**	6,034
– Non-audit services	**212**	209
Logistic expenses	**3,520**	4,633
Operating lease rentals	**1,587**	28,446
Others	**45,540**	28,492
	2,799,921	1,947,620

Notes:

(a) 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".

(b) 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.

(c) Platform distribution costs include online reading platform distribution costs and online game platform distribution costs.

(d) Research and development expenses (being included in the Group's general and administrative expenses) for the six months ended June 30, 2019 was approximately RMB242,259,000 (six months ended June 30, 2018: RMB157,191,000), which mainly included employee benefits expenses of research and development function staff.

10 INTEREST INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income on bank deposits	**85,589**	84,901

11 OTHER GAINS, NET

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

Notes:

(a) On October 31, 2018, the Group acquired 100% equity interest of New Classics Media, which is principally engaged in production and distribution of television series, web series and films. As of June 30, 2019, the remeasurement of the fair value of contingent consideration payable that arising from the acquisition of New Classics Media was based on the valuation performed by the independent external valuation firm. For six months ended June 30, 2019, fair value gain of approximately RMB194,116,000 was charged to "other gains, net", and the currency translation difference of approximately RMB3,274,000 was charged to "other comprehensive loss", in the consolidated statement of comprehensive income.

(b) In April 2018, a number of new third party investors injected additional capital of RMB150,085,000 to the Group's subsidiary Shenzhen Lazy Online Technology Co., Ltd. ("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 18) in the consolidated statement of financial position. Accordingly, a disposal gain of approximately RMB127,911,000 was recognized for six months ended June 30, 2018.

12 FINANCE COSTS

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on borrowings	**93,729**	10,359
Interest expenses on lease liabilities	**2,564**	–
Guarantee expense	**549**	1,746
Foreign exchange (gain)/loss, net	**(3,378)**	36,501
	93,464	48,606

13 INCOME TAX EXPENSE

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

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

(b) Hong Kong profit tax

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

(c) PRC corporate income tax

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

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

13 INCOME TAX EXPENSE (CONTINUED)

(c) PRC corporate income tax (Continued)

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

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	**516,740**	606,244
Share of profit of associates and joint ventures	**(82,482)**	(50,984)
Tax calculated at a tax rate of 25%	**108,565**	138,815
Effects of preferential tax rates applicable to different subsidiaries of the Group	**(9,959)**	(54,107)
Unrecognized deferred income tax assets	**49,811**	3,281
Non-deductible expenses less non-taxable income	**(5,960)**	20,536
Research and development tax credit	**(18,937)**	(6,594)
Income tax expense	**123,520**	101,931

14 EARNINGS PER SHARE

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

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

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

For the six months ended June 30, 2018 and 2019, the Company has the dilutive potential ordinary shares of restricted shares units ("RSUs") granted to employees. For the RSUs, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding RSUs. The RSUs are assumed to have been fully vested and released from restrictions with no impact on earnings.

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

15 DIVIDENDS

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

16 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**
(Unaudited)						
Six months ended June 30, 2019						
Opening net book amount as of January 1, 2019	**19,090**	**22,143**	**3,841**	**2,622**	**–**	**47,696**
Additions	**3,808**	**438**	**115**	**118**	**–**	**4,479**
Disposals	**(7)**	**–**	**(5)**	**(8)**	**–**	**(20)**
Depreciation	**(4,255)**	**(5,613)**	**(700)**	**(400)**	**–**	**(10,968)**
Currency translation differences	**2**	**25**	**(26)**	**–**	**–**	**1**
Closing net book amount as of June 30, 2019	**18,638**	**16,993**	**3,225**	**2,332**	**–**	**41,188**

	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
Unaudited						
Six months ended June 30, 2018						
Opening net book amount as of January 1, 2018	17,356	13,464	2,868	2,355	7	36,050
Additions	4,392	22	310	418	1,814	6,956
Transfer from construction in progress	–	998	–	–	(998)	–
Deemed disposal of a subsidiary	(983)	(156)	(20)	–	–	(1,159)
Depreciation	(3,833)	(2,542)	(572)	(308)	–	(7,255)
Closing net book amount as of June 30, 2018	16,932	11,786	2,586	2,465	823	34,592

17 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
(Unaudited)										
Six months ended June 30, 2019										
Opening net book amount as of January 1, 2019	10,653,325	23,383	1,132,893	273,251	51,333	800	21	3,615	2,536	12,141,157
Additions	–	–	–	88,536	–	–	–	682	–	89,218
Amortization	–	(3,050)	(13,598)	(57,409)	(7,333)	(400)	(21)	(1,316)	(174)	(83,301)
Currency translation differences	–	–	–	675	–	–	–	2	–	677
Closing net book amount as of June 30, 2019	10,653,325	20,333	1,119,295	305,053	44,000	400	–	2,983	2,362	12,147,751

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

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

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

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(a) Investments in associates

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

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

(b) Investments in joint ventures

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

(c) Joint operations

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

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss (Note 20)	**435,000**	470,941
Financial assets at amortised cost:		
– Trade and notes receivables (Note 26)	**1,617,010**	1,830,396
– Deposits and other assets (current and non-current portions) (Note 23)	**240,769**	217,315
– Term deposits (current and non-current portions)	**838,969**	481,561
– Cash and cash equivalents	**5,672,376**	8,342,228
	8,804,124	11,342,441

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 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 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 portions) (Note 11)	**1,761,000**	3,144,619
Financial liabilities at amortized cost:		
– Trade payables (Note 30)	**1,160,978**	1,131,067
– Other payables and accruals (excluding staff costs and welfare accruals, special funds payable and other tax payable) (Note 31)	**1,643,730**	1,661,726
– Borrowings (current and non-current portions) (Note 29)	**919,095**	1,765,445
	5,485,303	7,703,357

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

Financial assets at fair value through profit or loss include the following:

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

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

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

20 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. In 2017, the Group made investment in redeemable shares of associate was arising from the Group's transfer of the equity interest in the Group's previous subsidiary Shanghai Foch Film Culture Investment Co., Ltd. ("Foch").

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

In 2018, the Group entered into a share subscription agreement with an investee company, which is principally engaged in online reading business in South Korea, to subscribe for its preferred shares at a total consideration of approximately USD3,351,000 (equivalent to approximately RMB23,000,000), which represented approximately 4.42% equity interests of the investee on an outstanding and fully converted basis. On April 4, 2019, the Group fully converted its preferred shares into ordinary shares on a 1:1 basis. As of June 30, 2019, the Group held 25.22% equity interests of the investee company.

These aforementioned investments held by the Group contain embedded derivatives that are not closely related to the host contract. After considering the Group's investment objectives and intentions, the Group accounts for such investments as financial assets at fair value through profit or loss.

As of June 30, 2019, the Group used the market approach to determine the fair value of investment in redeemable shares of the associate that engaged in provision of audio online publishing service and key assumption used was the IPO probability of 40% as of June 30, 2019 (December 31, 2018: 40%).

As of June 30, 2019, the Group used the market approach to determine the fair value of the investment in redeemable shares of Foch and key assumption used was the IPO probability of 40% as of June 30, 2019 (December 31, 2018: 40%).

As of June 30, 2019, the Group used the market approach to determine the fair value of the investment in redeemable shares of the associate that engaged in the animation productions and key assumption used was the IPO probability of 10% as of June 30, 2019.

(b) As of December 31, 2018, derivative financial assets of approximately RMB26,804,000 were recognized as the Group has entered into a forward foreign currency contract with Bank of Communication, Tokyo Branch, for the purpose of managing its exchange rate exposure, other than for hedge purpose. The derivative financial assets, which measured at fair value through profit or loss, have been settled on March 19, 2019. During the six months ended June 30, 2019 and 2018, fair value gain amounting to approximately RMB10,107,000 and RMB26,000,000 was recognized in the consolidated statement of comprehensive income, respectively.

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

(b) Amounts recognised in profit or loss

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

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

21 DEFERRED INCOME TAXES

The movements in deferred income tax assets and liabilities during the periods, without taking into consideration the offsetting of balances within the same jurisdiction, are as follows:

	Provision for inventory obsolescence	Tax losses	Provision for intangible assets impairment	Provision for doubtful receivables and other temporary differences	Intangible assets acquired in business combination	Total
(Unaudited)						
As of January 1, 2019	**3,186**	**10,978**	**7,750**	**(38,148)**	**(338,015)**	**(354,249)**
Recognized in the profit or loss	**217**	**3,544**	**–**	**27,765**	**16,836**	**48,362**
As of June 30, 2019	**3,403**	**14,522**	**7,750**	**(10,383)**	**(321,179)**	**(305,887)**
(Unaudited)						
As of January 1, 2018	3,186	559	–	(41,465)	(135,861)	(173,581)
Recognized in the profit or loss	–	292	–	(41,376)	6,556	(34,528)
Deemed disposal of a subsidiary	–	–	–	–	6,331	6,331
As of June 30, 2018	3,186	851	–	(82,841)	(122,974)	(201,778)

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 June 30, 2019, the Group did not recognize deferred income tax assets in respect of losses and deductible temporary differences of approximately RMB201,212,000 (December 31, 2018: RMB163,158,000). These tax losses will primarily expire from 2019 to 2023.

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)						
As of January 1, 2019	**906,417,239**	**649**	**16,456,555**	**–**	**(21)**	**16,457,183**
Transfer of vested RSUs	**–**	**–**	**(41,928)**	**–**	**2**	**(41,926)**
Repurchase and cancellation of shares (Note a)	**(335,400)**	**–**	**(9,602)**	**–**	**–**	**(9,602)**
Repurchase of shares (not yet cancelled) (Note a)	**–**	**–**	**–**	**(6,254)**	**–**	**(6,254)**
As of June 30, 2019	**906,081,839**	**649**	**16,405,025**	**(6,254)**	**(19)**	**16,399,401**

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Shares held for RSU scheme RMB'000	Total RMB'000
(Unaudited)						
As of January 1, 2018	906,417,239	569	12,143,464	–	(23)	12,144,010
Transfer of vested RSUs	–	–	(4)	–	4	–
As of June 30, 2018	906,417,239	569	12,143,460	–	(19)	12,144,010

Note:

(a) During the six months ended June 30, 2019, the Group repurchased a total of 545,600 ordinary shares that listed on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was approximately HKD18,003,000 (approximately RMB15,856,000). As of June 30, 2019, 335,400 out of 545,600 repurchased ordinary shares had been cancelled and deducted from the share capital and share premium within shareholders' equity, and the remaining 210,200 shares were recorded as treasury shares as of June 30, 2019.

23 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Non-current:		
Prepayment to directors, actors and writers (Note a)	**146,186**	135,046
Deposits and prepayments	**12,144**	12,455
	158,330	147,501
Current:		
Prepayments to vendors and online writers	**198,406**	108,766
Prepayment for production of television series and films	**150,100**	134,830
Recoverable value-added tax	**130,718**	84,347
Receivable from co-producers and others on production of television series and films	**126,213**	121,793
Prepaid corporate income tax	**69,109**	–
Amounts due from related parties	**25,558**	30,986
Prepayment to directors, actors and writers (Note a)	**20,150**	20,150
Staff advances	**17,462**	8,007
Interests receivable	**16,980**	45,747
Deferred license fees and related costs	**12,793**	4,964
Royalty advances	**9,528**	9,883
Rental and other deposits	**8,407**	13,447
Prepayment for an overseas licensed film right	**6,125**	4,654
Others	**29,500**	22,326
	821,049	609,900

Note:

(a) As of June 30, 2019, the balance represented the prepayments made to directors, actors and writers in connection with the Group's productions of television series and film rights.

The directors of the Group considered that the carrying amounts of "prepayments, deposits and other assets" (excluding prepayments) approximated to their respective fair values as of June 30, 2019 and December 31, 2018. Prepayments, deposits and other assets were neither past due nor impaired. Their recoverability was assessed with reference to the credit status of the recipients.

24 INVENTORIES

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Adaptation rights and scripts (Note 25)	**764,020**	–
Raw materials	**11,167**	13,185
Work in progress	**14,716**	19,542
Inventories in warehouse	**85,652**	87,432
Inventories held with distributors on consignment	**99,254**	109,231
Others	**9,076**	9,335
	983,885	238,725
Less: provision for inventory obsolescence	**(108,399)**	(109,032)
	875,486	129,693

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

25 TELEVISION SERIES AND FILM RIGHTS

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

25 TELEVISION SERIES AND FILM RIGHTS (CONTINUED)

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

Notes:

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

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

26 TRADE AND NOTES RECEIVABLES

The Group usually allows a credit period of 30 to 360 days to its customers. Aging analysis of trade and notes receivables (net of allowance for doubtful debts) based on recognition date is as follows:

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

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

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

27 OTHER RESERVES

	Contribution from holding company RMB'000	Currency translation differences RMB'000	Put option on non-controlling interests RMB'000	Share-based compensation reserve RMB'000	Statutory surplus reserve fund RMB'000	Capital reserve RMB'000	Total RMB'000
(Unaudited)							
As of January 1, 2019	**34,127**	**296,835**	**10,964**	**500,588**	**86,573**	**(30,937)**	**898,150**
Currency translation differences	–	(18,139)	–	–	–	–	(18,139)
Share-based compensation expenses	–	–	–	71,639	–	–	71,639
Acquisition of non-controlling interests (Note a)	–	–	–	–	–	(594)	(594)
Share of other comprehensive loss of an associate	–	(415)	–	–	–	–	(415)
As of June 30, 2019	**34,127**	**278,281**	**10,964**	**572,227**	**86,573**	**(31,531)**	**950,641**
(Unaudited)							
As of January 1, 2018	34,127	(133,067)	10,964	348,361	56,128	(7,281)	309,232
Currency translation differences	–	90,129	–	–	–	–	90,129
Share-based compensation expenses	–	–	–	75,746	–	–	75,746
Acquisition of non-controlling interests (Note a)	–	–	–	–	–	(23,656)	(23,656)
As of June 30, 2018	34,127	(42,938)	10,964	424,107	56,128	(30,937)	451,451

Note:

(a) During the six months ended June 30, 2019, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, New Classics Energy Co., Ltd., and the aggregate net excess of considerations over the carrying amounts of acquired net non-controlling interests, being approximately RMB1,349,000, was recognised directly in equity.

During the six months ended June 30, 2019, the Group has acquired non-controlling interests in the Group's non-wholly owned subsidiary, Ningbo Yuewen Wenxing Investment Management Co., Ltd., and the aggregate net excess of carrying amounts of acquired net non-controlling interests over the considerations, being approximately RMB755,000, was recognised directly in equity.

During the six months ended June 30, 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.

28 SHARE-BASED PAYMENTS

(a) Share-based compensation plans of Tencent

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

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

	Number of RSUs
(Unaudited)	
As of January 1, 2019 and June 30, 2019	–
As of January 1, 2018 and June 30, 2018	10,000

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

(b) Share-based compensation plans of the Group

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

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

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

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

28 SHARE-BASED PAYMENTS (CONTINUED)

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

Movements in the number of RSUs outstanding is as follows:

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

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

29 BORROWINGS

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Non-current		
Unsecured		
RMB bank borrowings (Note a)	**–**	200,000
RMB other borrowings (Note b)	**–**	180,000
Total non-current borrowings	**–**	380,000
Current		
Unsecured		
RMB bank borrowings (Note a)	**803,200**	1,269,550
Secured		
RMB bank borrowings (Note c)	**115,895**	115,895
Total current borrowings	**919,095**	1,385,445
Total borrowings	**919,095**	1,765,445

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

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

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

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

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

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

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

(c) As of June 30, 2019 and December 31, 2018, the Group's secured long-term bank borrowings consist of approximately RMB115,895,000 borrowings bearing floating interest rates of People's Bank of China's loan prime rate plus 0.475% per annum. These secured long-term bank borrowings will be repayable from November 2, 2019 to December 27, 2019. These long-term bank borrowings were guaranteed by Mr. Cao and/or a subsidiary of the Group, and were secured by receivables of RMB145,000,000. As of June 30, 2019 and December 31, 2018, the borrowing balance of approximately RMB115,895,000 was reclassified to current liabilities as the borrowings will be repayable within 12 months after the end of the reporting period.

30 TRADE PAYABLES

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

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

31 OTHER PAYABLES AND ACCRUALS

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Loan and interest payable due to a related party (Note 32)	**749,671**	729,583
Payables of proceeds from license and distribution of TV programs and film rights as distributor (Note a)	**275,281**	279,781
Payables to financial investors in TV programs and film production	**229,992**	275,876
Advertising and marketing expense accruals	**160,482**	123,761
Staff costs and welfare accruals	**138,656**	110,269
Payments received from co-producer (Note b)	**101,282**	103,847
Other tax payable	**72,600**	42,808
Outsourcing game development fee payable	**25,986**	–
Professional service fee payable	**14,528**	50,808
Special funds payable	**13,916**	3,348
Payables related to transfer of intangible asset	**9,083**	9,083
Sales rebate accruals	**2,156**	1,072
Interests payable	**2,069**	5,203
Logistic fee payable	**1,517**	1,681
Payables related to investments	**–**	2,750
Others	**71,683**	78,281
	1,868,902	1,818,151

31 OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) These 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.

32 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.

Name of major related parties	**Relationship with the Company**
Tencent Holdings Limited	Ultimate holding company
Shenzhen Tencent Computer Systems 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
Shanghai Tencent Penguin Film Culture Co., Ltd.	Fellow subsidiary
Tencent Film Culture Co., Ltd.	Fellow subsidiary
Beijing BIZCOM Technology Company Limited	Fellow subsidiary
Shenzhen Tencent Anime Comic Company Limited	Fellow subsidiary
Shenzhen Shiji Kaixuan Technology Company Limited	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
Khorgas Fanrenxianjie Media Co., Ltd.	Joint venture 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
Tianjin Maoyan Weiying Media Co., Ltd.	Associate of the ultimate holding company
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

32 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fellow subsidiaries	**199,752**	188,368
Associates of the ultimate holding company	**9,628**	35,246
Associates of the Group	**1,941**	1,155
Joint ventures of the Group	**42,012**	33,950
	253,333	258,719

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fellow subsidiaries	**163,329**	160,770
Associates of the ultimate holding company	**25,191**	668
Associates of the Group	**8,701**	39,584
Joint ventures of the Group	**2,503**	2,254
	199,724	203,276

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Interest expense

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fellow subsidiary	**45,074**	–

(d) Period/year-end balances with related parties

	As of June 30, 2019	As of December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	
Trade receivables		
Fellow subsidiaries	**330,547**	758,817
Associates of the ultimate holding company	**182,611**	60,786
Associates of the Group	**1,642**	25,053
Joint ventures of the Group	**8,384**	6,420
	523,184	851,076

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Period/year-end balances with related parties (Continued)

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Prepayments, deposits and other receivables		
Fellow subsidiaries	**1,346**	24,853
Associates of the ultimate holding company	**24,212**	20
Associates of the Group	**–**	6,113
	25,558	30,986

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Trade payables		
Fellow subsidiaries	**43,040**	55,401
Associates of the ultimate holding company	**42**	12
Associates of the Group	**343**	1,871
Joint ventures of the Group	**1,792**	1,779
	45,217	59,063

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Period/year-end balances with related parties (Continued)

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000
Other payables and accruals		
Fellow subsidiaries (Note)	**779,603**	1,138,827
Associates of the ultimate holding company	**8,145**	900
Associates of the Group	**–**	3,391
	787,748	1,143,118

Note: As of June 30, 2019 and December 31, 2018, 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.

(e) Key management compensation

	Six months ended June 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Salaries, wages and bonuses	**6,053**	5,918
Other social security costs, housing benefits and other employee benefits	**107**	147
Pension costs – defined contribution plans	**161**	103
Share-based compensation expenses	**1,861**	3,946
	8,182	10,114

DEFINITIONS

"Administrator"	the committee appointed to administer the RSU Plan composed of members of the Board, and if no such committee is appointed, it shall mean the Board;
"Audit Committee"	the audit committee of the Company;
"Auditor"	PricewaterhouseCoopers, the external auditor of the Company;
"Award(s)"	the restricted stock unit(s) granted under the RSU Plan;
"Award Agreement(s)"	the agreements evidencing the grant of the Awards;
"Board"	the board of Directors of the Company;
"CG Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules;
"China" or the "PRC"	the People's Republic of China;
"Company", "our Company", or "the Company"	China Literature Limited (閱文集團) (formerly known as China Reading Limited), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013 with its Shares listed on the Main Board of the Stock Exchange under the stock code 772;
"Director(s)"	the director(s) of our Company;
"Group", "our Group", "the Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"HKD"	the lawful currency of Hong Kong;
"IP"	intellectual property;
"IPO"	initial public offering;

"IPO Proceeds"	:	the total net proceeds of HKD7,235 million from the Company's global offering on November 8, 2017, after deducting professional fees, underwriting commissions and other related listing expenses;
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"Main Board"	:	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
"MAUs"	:	monthly active users who access our platform or through our products or our self-operated channels on Tencent products at least;
"Model Code"	:	the Model Code for Securities Transactions by Directors of Listed Issuers;
"MPUs"	:	monthly paying users, meaning the number of accounts that purchase our content or virtual items on a special mobile app, WAP or website at least once during the calendar month in question;
"New Classics Media" or "NCM"	:	New Classics Media Holdings Limited (previously known as "Qiandao Lake Holdings Limited"), a company established in Cayman Island on 18 May 2018 and whose subsidiaries are principally engaged in production and distribution of television series and movies;
"Prospectus"	:	the prospectus of the Company dated October 26, 2017 issued in connection with the Hong Kong Public Offering;
"Reporting Period"	:	the six months ended June 30, 2019;
"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;
"RMB"	:	the lawful currency of the PRC;
"RSU(s)"	:	restricted stock unit(s);

DEFINITIONS

"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;
"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;
"Shanghai Yuewen"	:	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司), a company established in the PRC on April 2, 2014;
"Share(s)"	:	ordinary share(s) in the share capital of our Company with a par value of US$0.0001 each;
"Shareholders"	:	holder(s) of our Share(s);
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	:	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Tencent"	:	Tencent Holdings Limited, our controlling Shareholder, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700); and
"USD"	:	the lawful currency of the United States.

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