阅文集团 CHINA LITERATURE

China Literature Announces 2018 Interim Results

Hong Kong, August 13, 2018 – China Literature Limited ("China Literature" or the "Company", stock code: 0772.HK), a leading online literature platform in China, today announced the unaudited consolidated results for the six months ended June 30, 2018.

Results Highlights

- Total revenues increased 18.6% year-over-year ("YoY") to RMB2.3 billion (USD345.0 million[1]) in the first half of 2018.
- Gross profit increased 24.4% YoY to RMB1.2 billion (USD180.8 million). Gross margin increased from 50.0% to 52.4% accordingly.
- Operating profit increased 142.2% YoY to RMB567.4 million (USD85.7 million). Operating margin increased from 12.2% to 24.9% accordingly.
- Profit attributable to equity holders of the Company increased 138.6% YoY to RMB505.8 million (USD76.4 million). Profit attributable to equity holders of the Company as a percentage of revenues increased from 11.0% to 22.2%.
- Basic earnings per share were RMB0.58. Diluted earnings per share were RMB0.57.

Mr. Wu Wenhui, Co-Chief Executive Officer of China Literature said, "During the first half of 2018, we sustained and elevated our mission of creating value for writers and bringing literature to people. Our ecosystem continued to expand, as reflected by the growth in the number of our writers, literary works, and readers. Our intellectual property ('IP') operations business grew rapidly with revenues doubled year-over-year. We accelerated our investment in content adaptation, expanding the range of channels through which we can bring our content to users, and thus generate revenue for our content creators as well as our platform. Looking ahead, we will continue to strive to provide the best online reading experience to our users and to build a complete product life cycle from online reading to content adaptation to fully unlock the value of our IPs."

Financial Review

Revenues. Total revenues increased 18.6% YoY to RMB2,282.9 million (USD345.0 million) in the first half of 2018.

Revenues from online reading increased 13.3% YoY to RMB1,850.9 million (USD279.7 million) in the first half of 2018. Revenues from online reading on our products and self-operated channels increased 10.6% YoY to RMB1,567.9 million (USD237.0 million), primarily driven by continuous increase of core paying users' engagement and their growing willingness to pay for premium online literature content. Revenues from online reading on third-party platforms increased 30.8% YoY to RMB283.0 million (USD42.8 million), primarily driven by our enhanced cooperation with existing third-party distribution channels.

---

[1] Figures stated in USD are based on USD1 to RMB6.6166

Revenues from IP operations increased 103.6% YoY to RMB317.0 million (USD47.9 million) in the first half of 2018. The increase was primarily attributable to the increase in revenues from licensing copyrights for the adaptation of TV and web series, animations, games, films as well as comics, the growth and strengthening of our content, its growing commercial value, as well as the rising demand from our content adaptation partners for our high-quality literary titles.

Revenues from sale of physical books and others decreased to RMB115.0 million (USD17.4 million) in the first half of 2018, compared with RMB134.8 million in the same period last year. The decrease was mainly due to a decline of revenues from physical books as we continued to adjust our offline physical book business line and distribution channels in tandem with the Company's approach regarding this line of business. Our revenues from others are mainly derived from online games and online advertising services.

Gross profit. Gross profit increased 24.4% YoY to RMB1,196.5 million (USD180.8 million) in the first half of 2018. Gross margin increased to 52.4% from 50.0% YoY, primarily as a result of our efficient cost control measures, increased economies of scale and a shift of revenue structure.

Interest income. Interest income increased 593.4% YoY to RMB84.9 million (USD12.8 million) in the first half of 2018, primarily driven by the higher interest income from bank deposits.

Other gains, net. We recorded net other gains of RMB148.0 million (USD22.4 million) in the first half of 2018 compared to RMB50.7 million in the same period in the preceding year. The increase was mainly due to the recognition of a net gain of RMB127.9 million (USD19.3 million) in connection with deemed disposal of one of our subsidiaries, partially offset by a net foreign exchange loss of RMB36.5 million (USD5.5 million) during the first half of 2018.

Selling and marketing expenses. Selling and marketing expenses increased 12.8% YoY to RMB527.3 million (USD79.7 million) in the first half of 2018 as business expanded. As a percentage of total revenues, selling and marketing expenses decreased from 24.3% to 23.1%, mainly due to the growth in our revenues outpacing the growth in our selling and marketing expenses as a result of increased economies of scale.

General and administrative expenses. General and administrative expenses increased 3.5% YoY to RMB334.8 million (USD50.6 million) in the first half of 2018, mainly driven by greater employee benefits expenses. As a percentage of total revenues, general and administrative expenses decreased from 16.8% to 14.7%, mainly attributable to our increased economies of scale.

Operating profit. Operating profit increased 142.2% YoY to RMB567.4 million (USD85.7 million) in the first half of 2018, with operating margin increasing from 12.2% to 24.9%.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased 138.6% YoY to RMB505.8 million (USD76.4 million) in the first half of 2018, with its proportion of revenues increasing from 11.0% to 22.2%.

Other Key Financial Information

- Share-based compensation expenses increased 44.0% YoY to RMB75.7 million (USD11.4 million).
- EBITDA increased 56.1% YoY to RMB415.4 million (USD62.8 million). Adjusted EBITDA increased 41.0% YoY to RMB491.2 million (USD74.2 million).
- Non-GAAP profit attributable to equity holders of the Company increased by 60.9% YoY to RMB483.5 million (USD73.1 million) in the first half of 2018.
- As of June 30, 2018, the Company had net cash of RMB8,491.1 million (USD1,283.3 million).

Key Operating Information

- MAUs increased 11.3% YoY from 191.8 million to 213.5 million in the first half of 2018, among which MAUs on our self-owned platform products and self-operated channels on Tencent products, respectively, increased from 88.3 million and 103.5 million in the first half of 2017 to 106.3 million and 107.2 million in the first half of 2018, mainly driven by the Company's continuous innovation in the user experience and the sustained expansion of distribution channels.
- MPUs decreased by 7.0% YoY from 11.5 million to 10.7 million in the first half of 2018. The decrease was mainly due to the decline of paying users from our existing self-operated channels on Tencent products starting from the second half of 2017, partially offset by an increase in paying users from our self-owned platform products. MPUs maintained relatively stable compared with 10.6 million in the second half of 2017.
- Monthly ARPU grew 19.0% YoY from RMB20.5 to RMB24.4 in the first half of 2018, primarily due to continuous increase of paying users' engagement and their growing willingness to pay for premium online literature content.

Business Review and Outlook

During the first half of 2018, we reinforced our leading position in content offerings and expanded the number of high-quality literary works and writers on our platform. In June 2018, 16 out of the top 20 online literary works on Baidu's search rankings originated from our platform. Some of our new literary releases broke performance records for new books in terms of paying subscriptions and virtual gifting activity. We added 15 platinum-tier writers to our platform. We diversified our content genres, with emerging interests, such as comic fiction, competitive sports and science fiction, seeing rapid growth. We are working with China government agencies and the China Writers Association (CWA) at the national, provincial and local levels to nurture and promote works of literary realism by organizing writing competitions. By using such means to multiply the variety and quality of our content, we attracted more users and acquired more source materials for future IP adaptations.

As of June 30, 2018, we had 7.3 million writers on our platform. Our content library totaled 10.7 million literary works, including 10.2 million original literary works created by writers on our platform, 340 thousand works sourced from third-party online platforms and 170 thousand e-books. In terms of Chinese characters, a standard measure of literary output in the Chinese-reading world, 21.7 billion individual characters were added to our platform during the period.

Our MAUs increased from 191.8 million to 213.5 million YoY in the first half of 2018, reflecting continuous innovation in the user experience and the sustained expansion of distribution channels. We broadened our mobile distribution channels to reach a wider user base, strengthening our partnership with major handset manufacturers including Oppo, Huawei and Vivo by pre-installing our apps on their new handset models, such as the Oppo Find X series, Huawei Honor 10 series, and Vivo Y67. From March 2018, we began embedding our content within the Tencent Video service, the market leader in China's long-form online video streaming market.

Leveraging our analytics and algorithms, we improved our personalized reader recommendation system during the first half of 2018, strengthening the social components of our platforms. For example, we allowed our readers to create their own reading lists and recommend their favorite books to users with similar preferences. We also encouraged our readers to form fan groups for writers, literary works, and characters drawn from literature. Reader-writer interaction has improved significantly as fan groups are motivated to send virtual gifts to their favorite authors and comment or vote on their favorite literary characters and titles to show their support and appreciation.

During the first half of 2018, our IP business achieved significant progress, reflected in the 103.6% YoY increase in revenues from our IP operations. We licensed over 60 online literary works for adaptation into other entertainment formats during the period. We accelerated investment in TV productions and web series adapted from our IP, with key projects including *Joy of Life (庆余年)* and *The Golden Eyes (黄金瞳)*. We have developed a pipeline of eight projects, covering a variety of genres including romantic comedy, suspense, adventure and warfare. On the animation side, we released new seasons for existing popular co-produced animations including *Battle Through the Heavens - Season 2 (斗破苍穹-第二季)*, *The King's Avatar - Special Edition (全职高手-特别篇)*, *The Most Fantastic University - Season 2 (CMFU 学院-第二季)*, and *Bringing the Nation's Husband Home - Season 3 (国民老公带回家-第三季)*, in addition to a pipeline of 10 projects under development. Looking forward, we will continue to invest in the adaptation and development of our IP into different formats to more fully realize its potential audience and value.

Looking ahead, we will sustain our audience growth through new initiatives, such as the production of graphics and short videos created from our IP. We will enhance social features and reader-writer interactions across our platform to increase user engagement and retention. With respect to our IP business, we plan to build a complete product life cycle including online reading, fan groups' support, and content adaptation to facilitate the development of blockbuster IPs.

About China Literature Limited

China Literature Limited is a pioneer in the online literature market and operates China's leading online literature platform. The Company owns nine major branded products. Among these, QQ Reading, a unified mobile content aggregation and distribution platform, is the flagship product. Other products focus on individual genres and their respective fan bases. China Literature's shareholder and strategic partner, Tencent, provides the Company with exclusive content distribution access via its suite of leading mobile and Internet products, including Mobile QQ, QQ Browser, Tencent News, Weixin Reading and Tencent Video. The Company also has distribution beyond the Tencent platforms by pre-installing apps on handsets partners such as Oppo, Vivo and Huawei as well as licensing content to third-party partners such as Baidu, Sogou, JD.com and Xiaomi. China Literature monetizes its vast and proprietary content library through online paid reading and content adaptations for a variety of entertainment formats. China Literature's diverse and high quality content library is a significant competitive advantage that lies at the core of its business model.

Contact

For investors / analysts:	For media:
Maggie Zhou	Vivian Wang
Tel: +8621 6187 0500 ext. 80605	Tel: +852 2232 3978
Email: IR@yuewen.com	Email: vwang@Christensenir.com

Non-GAAP Financial Measures

To supplement the consolidated financial statements of the Company prepared in accordance with IFRS, certain non-GAAP financial measures, in terms of operating profit, operating margin, profit for the period, net margin, profit attributable to equity holders of the Company, basic EPS and diluted EPS, as additional financial measures, have been presented in this press release. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company'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.

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

Forward-Looking Statements

This press release contains forward-looking statements relating to the industry and business outlook, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this press release. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realized in future. Underlying the forward-looking statements is a large number of risks and uncertainties. Further information regarding these risks and uncertainties is included in our other public disclosure documents on our corporate website.

CHINA LITERATURE

CONSOLIDATED INCOME STATEMENT

	Six months ended June 30,	
	2018	**2017**
	(RMB in million, unless specified)	
Revenues		
Online reading	1,850.9	1,633.8
Intellectual property operations	317.0	155.7
Revenue from sales of physical books	75.9	93.9
Others	39.1	40.9
	2,282.9	**1,924.2**
Cost of revenues	(1,086.4)	(962.0)
Gross profit	**1,196.5**	**962.2**
Gross margin	***52.4%***	***50.0%***
Interest income	84.9	12.2
Other gains, net	148.0	50.7
Selling and marketing expenses	(527.3)	(467.4)
General and administrative expenses	(334.8)	(323.5)
Operating profit	**567.4**	**234.2**
Operating margin	***24.9%***	***12.2%***
Finance costs	(12.1)	(20.4)
Share of profit of associates and joint ventures	51.0	29.9
Profit before income tax	**606.2**	**243.7**
Income tax expense	(101.9)	(30.2)
Profit for the period	**504.3**	**213.5**
Net margin	***22.1%***	***11.1%***
Profit/(loss) attributable to:		
Equity holders of the Company	505.8	212.0
Non-controlling interests	(1.5)	1.5
	504.3	**213.5**
Earnings per share		
(in RMB per share)		
- Basic earnings per share	0.58	0.29
- Diluted earnings per share	0.57	0.29

CHINA LITERATURE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended June 30,	
	2018	**2017**
	(RMB in million)	
Profit for the period	**504.3**	**213.5**
Other comprehensive income/(loss):		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	90.1	(21.8)
Total comprehensive income for the period	**594.4**	**191.7**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	595.9	190.2
Non-controlling interests	(1.5)	1.5
	594.4	**191.7**

CHINA LITERATURE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	June 30, 2018	December 31, 2017
	(RMB in million)	
ASSETS		
Non-current assets		
Property, plant and equipment	34.6	36.1
Intangible assets	4,467.5	4,501.1
Investments in associates and joint ventures	556.3	342.3
Investments in redeemable shares of associates	-	267.0
Derivative financial assets	-	37.6
Deferred income tax assets	15.5	20.3
Financial assets at fair value through profit or loss	293.0	-
Prepayments, deposits and other assets	22.6	22.9
Term deposits	-	450.9
Other investments	-	25.1
	5,389.5	**5,703.3**
Current assets		
Inventories	339.0	222.5
Trade and notes receivables	606.3	760.0
Prepayments, deposits and other assets	252.2	295.8
Other investments at amortized cost	26.2	-
Term deposits	456.5	653.4
Cash and cash equivalents	8,509.6	7,502.4
Financial assets at fair value through profit or loss	37.8	-
	10,227.6	**9,434.1**
Total assets	**15,617.1**	**15,137.4**
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	0.6	0.6
Shares held for RSU scheme	(0.0)	(0.0)
Share premium	12,143.5	12,143.5
Other reserves	451.5	309.2
Retained earnings	673.8	168.0
	13,269.2	**12,621.2**
Non-controlling interests	**10.1**	**41.5**
Total equity	**13,279.3**	**12,662.7**

	As at	
	June 30, 2018	December 31, 2017
	(RMB in million)	
LIABILITIES		
Non-current liabilities		
Borrowings	-	475.0
Deferred income tax liabilities	217.3	193.9
Deferred revenue	40.4	41.6
	257.7	**710.5**
Current liabilities		
Borrowings	475.0	-
Trade payables	863.2	657.0
Other payables and accruals	352.9	719.6
Deferred revenue	342.2	352.9
Current income tax liabilities	46.2	34.7
Financial liabilities at fair value through profit or loss	0.5	-
	2,080.1	**1,764.1**
Total liabilities	**2,337.8**	**2,474.7**
Total equity and liabilities	**15,617.1**	**15,137.4**

RECONCILIATION OF OPERATING PROFIT TO EBITDA AND ADJUSTED EBITDA

	Six months ended June 30,	
	2018	2017
	(RMB in million)	
Reconciliation of operating profit to EBITDA and adjusted EBITDA:		
Operating profit	567.4	234.2
Add:		
Other gains, net	(148.0)	(50.7)
Interest income	(84.9)	(12.2)
Depreciation of property, plant and equipment	7.3	13.7
Amortization of intangible assets	73.7	81.1
EBITDA	**415.4**	**266.0**
Add:		
Share-based compensation	75.7	52.6
One-off listing expenses	-	29.8
Adjusted EBITDA	**491.2**	**348.4**

CHINA LITERATURE

RECONCILIATIONS OF IFRS TO NON-GAAP RESULTS

	Six months ended June 30, 2018				
		Adjustments			
	As reported	Share-based compensation	Net (gain) from investee companies[1]	Amortization of intangible assets[2]	Non-GAAP
	(RMB in million, unless specified)				
Operating profit	567.4	75.7	(153.9)	26.4	515.6
Profit for the period	504.3	75.7	(117.6)	19.8	482.2
Profit attributable to equity holders of the Company	505.8	75.7	(117.6)	19.6	483.5
EPS (RMB per share)					
- basic	0.58				0.55
- diluted	0.57				0.54
Operating margin	24.9%				22.6%
Net margin	22.1%				21.1%

	Six months ended June 30, 2017						
		Adjustments					
	As reported	Share-based compensation	Net (gain) from investee companies[1]	Amortization of intangible assets[2]	One-off listing expenses	Impairment provision[3]	Non-GAAP
	(RMB in million, unless specified)						
Operating profit	234.2	52.6	(66.3)	32.9	29.8	51.2	334.4
Profit for the period	213.5	52.6	(56.1)	24.7	29.8	38.4	302.8
Profit attributable to equity holders of the Company	212.0	52.6	(56.1)	23.9	29.8	38.4	300.6
EPS (RMB per share)							
- basic	0.29						0.41
- diluted	0.29						0.41
Operating margin	12.2%						17.4%
Net margin	11.1%						15.7%

Notes:

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

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

(3) Includes impairment provision for intangible assets.