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# 阅文集团

**CHINA LITERATURE LIMITED**

**阅文集团**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 772)**

**CONTINUING CONNECTED TRANSACTION  
COOPERATION WITH TIANWEN KADOKAWA  
ON ADAPTATION, PUBLICATION AND PERIPHERAL PRODUCTS  
AND  
AMENDMENTS TO COMPREHENSIVE COOPERATION AGREEMENT**

## **COOPERATION WITH TIANWEN KADOKAWA**

The Board is pleased to announce that, on October 19, 2018, Shanghai Yueting, a wholly-owned subsidiary of the Company, (on behalf of the Group) entered into the Cooperation Agreement with Tianwen Kadokawa (on behalf of the Kadokawa Group), pursuant to which the parties have agreed to, among other things, cooperate in adaptation, publication and peripheral products.

## **LISTING RULES IMPLICATIONS**

As of the date of this announcement, Tianwen Kadokawa is owned over 30% by Tencent. Accordingly, Tianwen Kadokawa is an associate of Tencent, the controlling shareholder of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps under the Cooperation Agreement (on an aggregated basis) is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

## **AMENDMENTS TO THE COMPREHENSIVE COOPERATION AGREEMENT**

Reference is made to the announcement of the Company dated March 20, 2018 in relation to the Comprehensive Cooperation Agreement entered into between Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of the Sogou Group), pursuant to which the parties have agreed to conduct various cooperation on games, literary work and audio work.

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

### **INTRODUCTION**

The Board is pleased to announce that, on October 19, 2018, Shanghai Yueting, a wholly-owned subsidiary of the Company (on behalf of the Group), entered into the Cooperation Agreement with Tianwen Kadokawa (on behalf of the Kadokawa Group), pursuant to which the parties have agreed to, among other things, cooperate in adaptation, publication and peripheral products.

### **COOPERATION ON ADAPTATION, PUBLICATION AND PERIPHERAL PRODUCTS**

#### **Principal Terms of the Cooperation Agreement**

**Date** : October 19, 2018

**Parties** : (1) Shanghai Yueting (on behalf of the Group); and  
(2) Tianwen Kadokawa (on behalf of the Kadokawa Group)

**Subject matter** : The parties have agreed to cooperate in the following areas:

- (a) ***Adaptation of literary work***: The Group authorizes the Kadokawa Group to adapt the literary work into comics (the “**comics adaptation**”).
- (b) ***Physical books publication***: The Group authorizes the Kadokawa Group to publish physical books based on the works of the Group.
- (c) ***Production and sales of peripheral products***: The Group authorizes the Kadokawa Group to produce and sell peripheral products based on the literary work of the Group.

The parties shall enter into implementation agreements setting out further particulars on the cooperation.

**Fee arrangements** : The parties have agreed on the following fee arrangements:

- fixed fee payable by the Kadokawa Group;
- revenue/profit sharing between the parties; or
- mixture of the above.

The parties shall enter into implementation agreements setting out further particulars on the fee arrangements.

### **Annual Caps and Basis of Determination**

The proposed annual caps for the transactions contemplated under the Cooperation Agreement for the years ending December 31, 2018, 2019 and 2020 are set out as follows:

	<b>For the years ending December 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed fee payable or revenue/profit to be shared by the Kadokawa Group to the Group	10,000	13,500	17,200

The above annual caps are calculated based on the future business needs of the Group and the Kadokawa Group taking into account: (i) the estimated scale of the potential works that the Group may license the Kadokawa Group; (ii) the rapid growth of the comics adaption, physical books publication and peripheral products markets; and (iii) the estimated revenue that may be generated from the comics, physical books and peripheral products with reference to the average price range for the comics adaption, publication and peripheral products markets.

For the years ended December 31, 2015, 2016 and 2017, the historical transaction amounts for the cooperation between the Company and Kadokawa Group are RMB647,547, RMB318,068 and RMB1,972,319, respectively.

### **Pricing Basis for the Cooperation Agreement**

The fixed fee payable or revenue/profit to be shared by the Kadokawa Group shall be determined after arm's length negotiation between the parties based on prevailing fair market pricing basis or cost-plus approach, with reference to pricing from independent third party.

In determining the fixed fee payable or revenue/profit to be shared by the Kadokawa Group, the Group's designated business development team comprising personnel responsible for overseeing its intellectual property operations will seek quotations from independent third parties and compare against those offered by Kadokawa Group to ensure that the terms offered by Kadokawa Group are fair and reasonable, and the internal control team of the Company will regularly monitor the compliance of such pricing policy.

## **Reasons and Benefits of Entering into the Cooperation Agreement**

The cooperation on adaptation, publication and peripheral products will be a mutually beneficial cooperation arrangement. Through the cooperation with the Kadokawa Group, the literary work of the Group will be more materialized and specific which will attract more potential users of physical books to read the literary work of the Group, thereby enriching and expanding the reader basis, the reputation and the brand influence of the Group.

## **AMENDMENTS TO THE COMPREHENSIVE COOPERATION AGREEMENT**

Reference is made to the announcement of the Company dated March 20, 2018 in relation to the Comprehensive Cooperation Agreement entered into between Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of the Sogou Group), pursuant to which the parties have agreed to conduct various cooperation on games, literary work and audio work. Under the Comprehensive Cooperation Agreement, the scope of Sogou Group covers Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京搜狗信息服務有限公司), Beijing Sogou Network Technology Co., Ltd. (北京搜狗網絡技術有限公司), Tianjin Sogou Network Technology Co., Ltd. (天津搜狗網絡技術有限公司), Chengdu Easypay Technology Co., Ltd. (成都吉易付科技有限公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息技術有限公司).

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

## **OPINION FROM THE BOARD**

The Directors (including the independent non-executive Directors) are of the view that terms of the Cooperation Agreement were determined after arm's length negotiation, and the transactions contemplated under the Cooperation Agreement (including the proposed annual caps for the years ending December 31, 2018, 2019 and 2020) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) are of the view that terms of the Supplemental Agreement were determined after arm's length negotiation, and the transactions contemplated under the Supplemental Agreement are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Li Ming, all being Directors, hold directorship or senior management position(s) in Tencent and its associates, and have therefore abstained from voting on the relevant Board resolutions approving the Cooperation Agreement, the Supplemental Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the Cooperation Agreement and the Supplemental Agreement. Save as disclosed above, none of the other Directors have abstained from voting on the relevant resolutions at the Board meeting.

## **LISTING RULES IMPLICATIONS**

As of the date of this announcement, Tianwen Kadokawa is owned over 30% by Tencent. Accordingly, Tianwen Kadokawa is an associate of Tencent, the controlling shareholder of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps under the Cooperation Agreement (on an aggregated basis) is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for the Comprehensive Cooperation Agreement and the Supplemental Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

## INFORMATION ON THE PARTIES

The Group is principally engaged in online literature business, and is a pioneer of China's online literature market and operates the leading online literature platforms. Shanghai Yueting is a direct wholly-owned subsidiary of the Company which is principally engaged in the business of the development in computer hardware and software, the design and production of computer products, providing technical service and the marketing planning service.

Tianwen Kadokawa is principally engaged in publication of animation and comics and production and sales of peripheral products derived from the related animation and comics.

Sogou Technology is an indirect wholly-owned subsidiary of Sogou, and the Sogou Group is principally engaged in the business of providing online search and search-related advertising services.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“China” or the “PRC”	the People's Republic of China, and for the purposes of this announcement only, except where the context requires otherwise, excluding Hong Kong, Macau and Taiwan;
“Company”	China Literature Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange with stock code 772;
“Comprehensive Cooperation Agreement”	an agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of the Sogou Group) in relation to, among other things, cooperation on games, literary and audio work;
“connected persons”	has the meaning ascribed to it under the Listing Rules;

“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Cooperation Agreement”	the cooperation agreement on adaptation, publication and peripheral products entered into between Shanghai Yueting (on behalf of the Group) and Tianwen Kadokawa (on behalf of the Kadokawa Group) on October 19, 2018 in relation to cooperation on adaptation, publication and peripheral products;
“Director(s)”	the director(s) of our Company;
“Group”, “the Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Kadokawa Group”	Tianwen Kadokawa and its associates and other present and future entities controlled through contractual arrangements;
“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;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shanghai Yueting”	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司), a company established in the PRC on May 27, 2008, and our directly wholly-owned subsidiary;
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each;
“Shareholders”	holder(s) of our Share(s);
“Sogou”	Sogou Inc., a company incorporated in the Cayman Islands, whose American Depositary Shares are listed on the New York Stock Exchange under the symbol “SOGO”, and an associate of Tencent;

“Sogou Group”	certain subsidiaries or variable interest entities of Sogou, including Sogou Technology, Beijing Sogou Information Service Co., Ltd. (北京搜狗信息服務有限公司), Beijing Sogou Network Technology Co., Ltd. (北京搜狗網絡技術有限公司), Tianjin Sogou Network Technology Co., Ltd. (天津搜狗網絡技術有限公司), Chengdu Easypay Technology Co., Ltd. (成都吉易付科技有限公司), Beijing Shi Ji Si Su Technology Co., Ltd. (北京世紀思速科技有限公司) and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (深圳市世紀光速信息技術有限公司);
“Sogou Technology”	Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技發展有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of Sogou;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Supplemental Agreement”	an agreement entered into on October 19, 2018 between Shanghai Yueting (on behalf of the Group) and Sogou Technology (on behalf of its subsidiaries and entities controlled through contractual arrangement);
“Tencent”	Tencent Holdings Limited, one of our controlling shareholders, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700), being the controlling shareholder of the Company and through such wholly-owned subsidiaries holding approximately 52.66% of the total issued share capital of the Company as of the date of this announcement; and

“Tianwen Kadokawa”

Guangzhou Tianwen Kadokawa Animation & Comics Co., Ltd., a company established in Guangzhou, PRC, which is owned over 30% by Tencent.

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

By order of the Board  
**CHINA LITERATURE LIMITED**

**Mr. James Gordon Mitchell**

*Chairman of the Board and Non-executive Director*

Hong Kong, October 19, 2018

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Wu Wenhui and Mr. Liang Xiaodong as executive Directors; Mr. James Gordon Mitchell, Mr. Lin Haifeng, Ms. Li Ming and Mr. Yang Xiang Dong as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.*