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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO NEW CONTINUING CONNECTED TRANSACTION
AND
GRANT OF WAIVER FROM STRICT COMPLIANCE WITH
RULE 14A.53 (1) OF THE LISTING RULES**

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2017 Online Platform Cooperation Framework Agreement and the 2017 IP Cooperation Framework Agreement by entering into (i) the 2019 Online Platform Cooperation Framework Agreement in relation to the cooperation in the distribution of the Group's literary works and audio works through the Retained Tencent Group Platforms, and (ii) the 2019 IP Cooperation Framework Agreement in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works.

On March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the Advertisement Cooperation Framework Agreement in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling shareholder of the Company, and Tencent Computer is an indirect wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for each of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under each of the 2019 Online Platform Cooperation Framework Agreement, the 2019 IP Cooperation Framework Agreement and the Advertisement Cooperation Framework Agreement (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders; and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders, is expected to be despatched to Shareholders by no later than April 9, 2019.

INTRODUCTION

Reference is made to the prospectus of the Company in relation to, among other things, the 2017 Online Platform Cooperation Framework Agreement and the 2017 IP Cooperation Framework Agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on October 21, 2017. For further details of the 2017 Online Platform Cooperation Framework Agreement and the 2017 IP Cooperation Framework Agreement, please see the prospectus of the Company dated October 26, 2017.

The Board is pleased to announce that, on March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2017 Online Platform Cooperation Framework Agreement and the 2017 IP Cooperation Framework Agreement by entering into (i) the 2019 Online Platform Cooperation Framework Agreement in relation to the cooperation in the distribution of the Group's literary works and audio works through the Retained Tencent Group Platforms, and (ii) the 2019 IP Cooperation Framework Agreement in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works.

The Board is pleased to announce that, on March 18, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the Advertisement Cooperation Framework Agreement in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group.

The 2017 Online Platform Cooperation Framework Agreement and the 2017 IP Cooperation Framework Agreement will be terminated once the 2019 Online Platform Cooperation Framework Agreement and the 2019 IP Cooperation Framework Agreement take effect.

Reference is also made to the announcement of the Company dated March 20, 2018 in respect of the Audio and Comics Cooperation Agreement in relation to the cooperation in distribution and/or licensing of the information network transmission rights of audio and comics works of the Company. As the scope of the 2019 Online Platform Cooperation Framework Agreement and the 2019 IP Cooperation Framework Agreement have covered the cooperation under the Audio and Comics Cooperation Agreement, the Audio and Comics Cooperation Agreement will also be terminated once the 2019 Online Platform Cooperation Framework Agreement and the 2019 IP Cooperation Framework Agreement take effect.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

1. 2019 Online Platform Cooperation Framework Agreement

Principal terms of the 2019 Online Platform Cooperation Framework Agreement are set out as follows:

Date: : March 18, 2019

Parties : (1) Shanghai Yueting (on behalf of the Group); and
(2) Tencent Computer (on behalf of the Retained Tencent Group)

Subject matter : *(1) In respect of literary works*

The Retained Tencent Group shall provide the end users of the Retained Tencent Group Platforms with access to the Group's authorized literary works so that they can preview the literary works or enjoy free or paid online reading services. The Group shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute the literary works of the Group through other channels. The Group shall have access to the data of back-end

technology platforms of the relevant Retained Tencent Group Platforms. Details of cooperation such as the scope of authorized literary works and Retained Tencent Group Platforms, the form of cooperation and authorization of the literary works and the allocation of responsibilities shall be agreed by the parties separately.

(2) In respect of audio works operated by the Group

The Retained Tencent Group shall provide the end users of the Retained Tencent Group Platforms (such Retained Tencent Group Platforms through which the Group distributes its audio works are authorized by the Retained Tencent Group to be self-operated by the Group) with access to the Group's audio works so that they can enjoy free or paid online listening services. The Group shall determine the operation and pricing strategies relating to the audio works. The Retained Tencent Group shall provide all necessary assistance. Details of cooperation such as the scope of audio works and Retained Tencent Group Platforms, the form of cooperation and authorization of the audio works and the allocation of responsibilities shall be agreed by the parties separately.

The Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group.

Fee arrangements and pricing policy

(1) In respect of literary works

The Group shall share its revenue with the Retained Tencent Group for revenue of literary works generated through Online Platform Cooperation CCTs. The prescribed revenue sharing percentage shall be determined after arm's length negotiation between the relevant parties. Please refer to the section headed "Proposed Annual Caps and Basis of Determination" for further details of the revenue sharing arrangement.

(2) In respect of audio works operated by the Group

The parties shall cooperate on the following terms for the distribution of audio works on the Retained Tencent Group Platforms:

- fixed amount of distribution fees
- revenue sharing / profit sharing
- mixture of the above two

**Payment and
settlement terms**

Payment and settlement terms under the 2019 Online Platform Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2019 Online Platform Cooperation Framework Agreement.

Proposed Annual Caps and Basis of Determination

(1) Proposed annual caps in respect of literary works and basis for not setting monetary annual caps

The revenue arising out of the cooperation in respect of literary works under the 2019 Online Platform Cooperation Framework Agreement shall be split between the relevant parties and shall be determined in accordance with the following formula:

Net Proceeds of the Literary Works × prescribed revenue sharing percentage

Net Proceeds of the Literary Works (defined as below) shall refer to the aggregate net amount of deposits received from the users of the Retained Tencent Group Platforms that access the Group's literary works and the revenue of the advertisement generated from these users after deduction of the platform commissions and certain operating expenses incurred for operation of and distribution by the Retained Tencent Group Platforms. The platform commission and operating expenses deducted represent the relevant proportion of expenses as charged by third party platforms (e.g. Apple and Android) when the users add value to their accounts using these platforms. These expenses represent a standard amount charged in respect of each third party platform. The amount to be shared by the Retained Tencent Group for each of the underlying cooperation in respect of literary works under the 2019 Online Platform Cooperation Framework Agreement shall not exceed the Net Proceeds of the Literary Works received pursuant to the relevant cooperation in the distribution of the Group's literary works through the self-operated channels of the Group on Tencent platforms (the "**Net Proceeds of the Literary Works**") × 30%.

The prescribed revenue sharing percentage will depend on the Retained Tencent Group Platform through which the authorized literary works of the Group is distributed and shall be determined after arm's length negotiation between the relevant parties and will in any event not exceed 30%.

The Company is of the view that it would be unsuitable to adopt monetary annual caps for the Online Platform Cooperation CCTs in relation to the literary works contemplated in the 2019 Online Platform Cooperation Framework Agreement for the following reasons:

- (a) it would be impracticable to estimate with any degree of certainty the amount of revenue which may be generated by these transactions as it will ultimately depend on factors such as the acceptance and popularity of the Group's existing and future literary works and user traffic among the users of the Retained Tencent Group Platforms, all of which are beyond the control of the Group and the Retained Tencent Group;
- (b) historically the transactions under the 2017 Online Platform Cooperation Framework Agreement demonstrate a fluctuating trend with no indication of stabilization, representing a year-on-year increase of 61% for the year ended December 31, 2017 and a year-on-year decrease of 34% for the year ended December 31, 2018. The Company is of the view that the Company's principal business, online reading, is in an industry which has not yet stabilised. Instead, the industry environment has been rapidly changing over the past years due to introduction of new business models and channels, entry of new competitors and the constantly-changing Internet users' behaviour. The Company reasonably expects the industry is going to undergo dramatic changes in the foreseeable future. The Company is still experiencing an early stage of the industry evolution where online readers' demographics, preference and reading habits have not formed a stabilised trend or pattern. The ups and downs of the Company's historical transaction amounts for Online Platform Cooperation CCTs over the two years ended December 31, 2018 were the best evidence of the unpredictability of its key business drivers. For example, within just a few years, China's online readers have substantially switched from PC/websites to mobile reading and adapted to mobile payment as compared to value-stored card/credit card payment. Also, the rise of the new business model of offering free literary content and earning revenue through advertisement only occurred in the second quarter of 2018. The Company has to be able to adapt and optimize its strategies to face the challenges of tech innovations and changing customers and product mix in the context of China's fast developing Internet industry. It would be unreasonable for the Company to impose an annual cap based on an arbitrary monetary amount. Percentage of revenue sharing would so far be a more sensible method to gauge the Company's transaction amount for Online Platform Cooperation CCTs in the highly unpredictable Internet-based industry environment.

- (c) the Company believes that the historical amounts of the Online Platform Cooperation CCTs would not be appropriate to serve as the basis for any monetary annual caps such that any attempt to do so would be arbitrary. In particular, given the unpredictability surrounding the industry and key business drivers of the Company, there is no strong correlation between future business trends and historical transaction amount, in addition to the impracticality of estimating with any degree of certainty the amount of revenue which may be generated under the Online Platform Cooperation CCTs as it will depend on factors beyond control of the Group and the Retained Tencent Group such as choice of the Retained Tencent Group Platforms and other uncontrolled factors as set out in (a) above. User traffic, payment preference, pricing mechanism, user behaviour and Internet literary content are rapidly changing. Currently available historical transaction figures do not lead to the conclusion that the Company can now begin to reasonably estimate an annual cap in monetary amount. The Company reiterates that monetary amount is an arbitrary measurement of its business volume and is likely to produce incorrect or misleading results. By way of illustration:
- (i) if the Company were to adopt (i) the transaction amount for the year ended December 31, 2018 (i.e. RMB196.2 million) and (ii) a year-on-year decrease of 34% based on the year ended December 31, 2018 or an annual compound growth rate of 3% from December 31, 2016 to December 31, 2018 as the basis of monetary annual cap for future Online Platform Cooperation CCTs, such monetary annual cap would impose an arbitrary ceiling on the revenue that the Group could derive from the Online Platform Cooperation CCTs and significantly impact the growth and performance of the Company when the historical transaction amount for the year ended December 31, 2017 could reach RMB297.9 million;
 - (ii) if the Company adopts a year-on-year increase of 61% with reference to that for the year ended December 31, 2017, the monetary annual cap would lose its connection to the historical transactions when the transactions for the year ended December 31, 2018 represents a year-on-year decrease of 34%. If the Company otherwise;
 - (iii) if the Company adopts any growth rate between year-on-year decrease of 34% and year-on-year increase of 61%, the growth and therefore the monetary annual caps would be arbitrary without any meaningful reference to historical transactions;
- (d) similar to the revenue-sharing formula the Group has adopted for online platform cooperation arrangements with other third parties, the revenue-sharing arrangement is adopted to incentivize the online platform providers based on the performance and any fixed monetary annual caps would set an arbitrary ceiling that defeats such purpose;

- (e) adoption of annual caps with fixed monetary annual caps will render it unduly burdensome for the Group to comply with the disclosure, announcement, circular and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules whenever the revenue generated through the Online Platform Cooperation CCTs exceeds the caps. In particular, "continuation" is vital to the Company's internet-based business model. Due to the arbitrariness of monetary amount cap, the Company would not be able to meaningfully gauge its business volume for Online Platform Cooperation CCTs. In the event the annual cap needs to be revisited and approved by the Shareholders at an extraordinary general meeting, the Company must suspend its Online Platform Cooperation CCTs with the Retained Tencent Group, which give rises to a catastrophic impact on its ordinary course of business. It is unacceptable for an Internet-based business model to suspend its business for a period and restart again as it means loss of customers to all competitors and breach of contracts given most of the customers make prepayments for a whole year's reading service or more. Such prolonged suspension would cause significant disruptions to the business of the Company and irreversible harm to the reputation of the Company and would be detrimental to the Company and shareholders as a whole;
- (f) as online reading is the principal business for the Company, and setting of monetary annual caps would inadvertently distribute the Company's confidential and sensitive trade information. It allows the Company's competitors to assess the Company's marketing strategy and focus and counter-react accordingly as the monetary annual caps are indicative of the extent of the cooperation between the Group and the Retained Tencent Group; and
- (g) the sharing of revenue based on the formula provided in the 2019 Online Platform Cooperation Framework Agreement (i.e. revenue split based on a prescribed ratio) is consistent with the historical and the prevailing commercial practices in relation to the Group's online platform cooperation arrangements with the Retained Tencent Group or other third parties. The average revenue sharing percentage of the previous transactions under the 2017 Online Platform Cooperation Framework Agreement was 23.0% for the year ended December 31, 2016 and 25.1% for the year ended December 31, 2017. The upper limit for the prescribed percentage of the Net Proceeds of the Literary Works to be shared by the Retained Tencent Group of 30% set out in the formula provided in the 2019 Online Platform Cooperation Framework Agreement is also consistent with the historical rates adopted by the Group in relation to its online platform cooperation arrangements with the Retained Tencent Group and/or other independent third parties. The revenue sharing formula as set out above therefore offers the best alternative to monetary annual caps in light of the difficulties set out in sub-paragraphs (a) to (f) above.

Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of setting monetary annual cap under Rule 14A.53(1), subject to the following conditions:

- (a) the waiver, if granted, will only apply to the framework agreements entered into between Shanghai Yueting and Tencent Computer, namely, the transactions contemplated under the 2019 Online Platform Cooperation Framework Agreement which are entered into, on normal commercial terms, in the ordinary and usual course of business of the Company, will be on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) the Company will disclose in its subsequent annual and interim reports (i) a clear description of the bases for calculating the revenue derived from each of the 2019 Online Platform Cooperation Framework Agreement, (ii) the number of underlying transactions under each of the 2019 Online Platform Cooperation Framework Agreement, (iii) a summary of the transactions undertaken pursuant to the 2019 Online Platform Cooperation Framework Agreement, (iv) the actual transaction amounts of the Online Platform Cooperation CCTs, and (v) the actual revenue sharing percentage for the transactions under the 2019 Online Platform Cooperation Framework Agreement during the financial year;
- (c) the independent non-executive Directors will review the underlying transactions entered into pursuant to the 2019 Online Platform Cooperation Framework Agreement on an annual basis and confirm in its annual reports the matters set out in Rule 14A.55 of the Listing Rules;
- (d) the Company will comply with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the 2019 Online Platform Cooperation Framework Agreement;
- (e) the Company will engage an external auditor to report on, among other things, transactions contemplated in the 2019 Online Platform Cooperation Framework Agreement pursuant to Rule 14A.56 of the Listing Rules. The Company will also ensure that the Retained Tencent Group allow the auditors sufficient access to the Company's records for the purpose of reporting on the transactions contemplated in the 2019 Online Platform Cooperation Framework Agreement;
- (f) the Company and the Board will ensure that the relevant Online Platform Cooperation CCTs are undertaken in accordance with the terms of the 2019 Online Platform Cooperation Framework Agreement and will use their best

endeavours to comply with the terms of the 2019 Online Platform Cooperation Framework Agreement and the Listing Rules requirements applicable to the 2019 Online Platform Cooperation Framework Agreement to the extent not waived by the Stock Exchange;

- (g) the Company will disclose in the circular of the Company for the Annual General Meeting for financial year ended December 31, 2018 (i) the background of entering into the 2019 Online Platform Cooperation Framework Agreement, (ii) the salient terms of the 2019 Online Platform Cooperation Framework Agreement, (iii) the grounds of application for waivers set out in the final waiver application(s) submitted to the Stock Exchange, and (iv) the independent non-executive Directors' and the independent financial adviser's views on the fairness and reasonableness of the 2019 Online Platform Cooperation Framework Agreement as a whole;
- (h) the Company will implement internal procedures to ensure that the Online Platform Cooperation CCTs are undertaken in accordance with the terms of the 2019 Online Platform Cooperation Framework Agreement and the underlying transaction agreements entered into pursuant to or governed by the 2019 Online Platform Cooperation Framework Agreement. The executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the relevant internal departments to discuss issues relating to the Online Platform Cooperation CCTs or any potential deviations from the terms of the 2019 Online Platform Cooperation Framework Agreement and the underlying transaction agreements);
- (i) the amounts that the Group pays to the Retained Tencent Group pursuant to the 2019 Online Platform Cooperation Framework Agreement will not exceed 30% of the Net Proceeds of the Literary Works;
- (j) the waiver, if granted, will be subject to the approval of the Board and the confirmation of the independent non-executive Directors; and
- (k) the Company will re-comply with Chapter 14A of the Listing Rules as fast as practicable should any of the above conditions no longer exists.

(2) Proposed annual caps in respect of audio works operated by the Group and basis of the annual caps

The proposed annual caps for the distribution fees payable by the Group to the Retained Tencent Group in respect of the distribution of the audio works which are operated by the Group on the Retained Tencent Group's platform under the 2019 Online Platform Cooperation Framework Agreement for the three years ending December 31, 2021 are set out as follows:

	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Distribution fees payable by the Group to the Retained Tencent Group in respect of the audio works	6,600	12,300	18,450

As the transactions in respect of the distribution of the audio works, which are operated by the Group, on the Retained Tencent Group's platforms were new business opportunities explored by the Group and the Retained Tencent Group, no historical data is available for reference as far as the determination of the proposed annual caps for the distribution fees payable by the Group to the Retained Tencent Group in respect of distribution of such audio works. The above proposed annual caps for the three years ending December 31, 2021 are determined based on the following factors: (i) the estimated scale of audio works that the Group is operating and that has the potential to be developed for future operation; and (ii) the historical cost of distribution of other types of intellectual property rights with the Retained Tencent Group; (iii) the anticipated number of daily active users in each of the Retained Tencent Group's platforms; and (iv) the estimated average amount of increase in revenue or profit to be generated from each active user of these platforms.

Reasons and Benefits for Entering into the 2019 Online Platform Cooperation Framework Agreement

The Group distributes the literary works and audio works to readers through the Group's own platforms as well as the Group's self-operated channels on Tencent's

distribution platforms. The Retained Tencent Group is a leading player in the PRC Internet, social network and media entertainment industries with an extensive network coverage (including but not limited to websites, social networking softwares and smartphone applications) and a vast user base. The cooperation between the Group and the Retained Tencent Group in utilizing Tencent's platforms to distribute the Group's literary contents and audio works will enable the Group to leverage the popularity of the Retained Tencent Group Platforms among users, enhance the popularity of the Group's literary and audio works, and allow the Group to reach more potential users, and further enhance the business growth of the Group.

Pricing Policies

(1) In respect of literary works

The prescribed percentages for the revenue generated from the literary works shared by the Retained Tencent Group will vary from platform to platform and shall be determined between the relevant parties on an arms-length basis from time to time and will in any event not exceed 30%. Generally, when determining the prescribed percentage for a specific online platform cooperation, the Group will take into account factors such as the coverage of content provided by the Group, the frequency of content update by the Group, and other services that may be required by the Group or the Retained Tencent Group.

The arrangement with the Retained Tencent Group is not directly comparable with those between the Group and other third party distribution channels, because in such other instances the Group is generally not involved in product operation and instead primarily provides sources of content for display on such third party distribution channels to their readers. The terms for other third-party distribution channels are therefore not directly comparable with those for the self-operated channels of the Group offered by the Retained Tencent Group.

(2) In respect of audio works operated by the Group

The fixed distribution fees, the percentage of revenue or profit to be shared by the Group to the Retained Tencent Group, and/or a mixture of the above fee arrangements shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and taking into account various commercial factors, including the quantity and quality of the Retained Tencent Group's distribution platforms, the coverage of content product by the Group, the frequency of content update by the Group, and other services that may be required by the Group.

Historical Amounts

(1) In respect of literary works

For the years ended December 31, 2016, 2017 and 2018, the aggregate amounts under the cooperation in the distribution of the Group's literary works under the 2017 Online Platform Cooperation Framework Agreement, of which the majority represented online reading platform distribution costs paid to the Retained Tencent Group, and the remaining represented the revenue derived from WeChat Reading and etc. are set out below:

	For the year ended December 31,		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amounts under the cooperation in respect of literary works	184,496	297,882	196,222

(2) In respect of audio works operated by the Group

For the years ended December 31, 2016, 2017 and 2018, the distribution fees paid by the Group to the Retained Tencent Group in respect of the audio works and generated under the Audio and Comics Cooperation Agreement are set out below:

	For the year ended December 31,		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Distribution fees paid by the Group to the Retained Tencent Group in respect of the audio works and generated under the Audio and Comics Cooperation Agreement <i>(Note)</i>	—	—	—

Note: As the distribution of audio works operated by the Group on the Retained Tencent Group's platforms is a new business for the Group, the Group is still in negotiation with the Retained Tencent Group on the terms of the implementation agreements and has not yet paid any distribution fees to the Retained Tencent Group.

2. 2019 IP Cooperation Framework Agreement

Principal terms of the 2019 IP Cooperation Framework Agreement are set out as follows:

- Date:** : March 18, 2019
- Parties** : (1) Shanghai Yueting (on behalf of the Group); and
(2) Tencent Computer (on behalf of the Retained Tencent Group)
- Subject matter** : The Group agreed to the cooperation in the content adaptation of the Company's literary works, distribution of the works (including but not limited to audio works and comics) and/or the derivative rights of intellectual property of these works.

Such IP Cooperation CCTs shall exclude any transactions which involve the formation of a joint venture entity in any form or other form of joint arrangement in connection with or for the purpose of the adaptation of intellectual property rights to the Group's literary works. If such joint venture entity is a subsidiary of Tencent, any type of cooperation contemplated by the IP Cooperation CCTs with such joint venture entity will be subject to the annual cap as further described below.

The 2019 IP Cooperation Framework Agreement only covers IP Cooperation CCTs entered into between the Group and any member of the Retained Tencent Group and does not cover any transaction between the Group and any associates of Tencent (whether with or without the involvement of any member of the Retained Tencent Group). The Company will comply with the Listing Rules in respect of the entering into of the transactions for adaptation of the intellectual property rights of the Group to its literary works with associates of Tencent separately and will not aggregate such transactions with the transactions contemplated under the 2019 IP Cooperation Framework Agreement.

For the avoidance of doubt, in the event that the Group cooperates with the Retained Tencent Group in the licensing of the internet information broadcast rights and broadcast rights of audiovisual works including films, television series and animation, such transactions will be conducted and carried out under the distribution framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018. For further details of the distribution framework agreement, please refer to the announcement of the Company dated August 13, 2018 and the circular of the Company dated September 28, 2018.

Forms of cooperation

Forms of cooperation under the 2019 IP Cooperation Framework Agreement include but are not limited to the following:

- Adaptation by the Retained Tencent Group of the Group's literary works into movies, television series, games, audio works, animations or comics; and
- Licensing by the Group of the information network transmission rights of works (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works to the Retained Tencent Group.

Fee Arrangement

The parties shall cooperate on the following terms for the fee in respect of the IP Cooperation CCTs:

- Fixed payment from the licensee to the licensor;
- Revenue/profit sharing between the parties; and
- A mix of the foregoing two commercial arrangements

Payment and settlement terms

Payment and settlement terms under the 2019 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2019 IP Cooperation Framework Agreement.

Proposed Annual Caps and Basis for Not Setting Monetary Annual Caps

The revenue derived from the IP Cooperation CCTs during one financial year shall not exceed 6% of the audited revenue of the Company in respect of the immediate preceding financial year taking into account (i) the market leading position of the Retained Tencent Group in the area of social and communication platforms and media platforms in the PRC Internet and social network industry, (ii) the rapid growth of historical revenue generated under the 2017 IP Cooperation Framework Agreement for the two years ended December 31, 2018, (iii) the expected increase in the transaction amount taking into account the existing contracts entered into between the Retained Tencent Group and the Group as well as the contracts that are under negotiation and are expected to be entered into between the Retained Tencent Group and the Group under the IP Cooperation CCTs, (iv) number of increase in the number of the Group's intellectual properties available for licensing and adaptation and the expected increase in monetization value of the Group's intellectual properties that are suitable for adaptation as demonstrated by the increase in its literary titles, and (v) the rapid growth in intellectual property adaptation market.

Based on the audited revenue of the Company for the year ended December 31, 2018 amounting to RMB5,038,250,000, the annual cap in respect of the IP Cooperation CCTs for the year ending December 31, 2019 is RMB302,295,000.

The Company is of the view that it would be unsuitable to adopt monetary annual caps for the IP Cooperation CCTs contemplated in the 2019 IP Cooperation Framework Agreement for the following reasons:

(a) IP Cooperation CCTs with fixed licensing fees arrangement

With respect to the IP Cooperation CCTs that prescribe payment of fixed licensing fees without revenue/profit sharing arrangements, adoption of monetary annual caps is unsuitable for this type of transactions due to the following reasons:

- (a) The Company has limited visibility on the number of intellectual property rights that will be licensed to the Retained Tencent Group, or become a subject of cooperation with the Retained Tencent Group in these transactions as:
 - (i) both existing and newly originated intellectual properties on the Group's platform are available and potentially suitable for licensing or adaptation, and the number of such intellectual properties may increase significantly in the future in line with the growth in the Group's business;

- (ii) for those intellectual properties that are agreed to be licensed for a fixed period, they will become available for licensing again after the licensing period expires; and
 - (iii) the number of intellectual property rights involved in this type of transactions will also depend on factors such as the ever-evolving market demands and end-users' preferences for entertainment products which are outside of the Group's or the Retained Tencent Group's control;
- (b) the Company expects that the demand for the licensing or acquisition of intellectual property rights to the Group's literary works will increase in the future as:
 - (i) intellectual property licensing industry in the PRC is still in an early phase and the demand may increase significantly in the future; and
 - (ii) the Retained Tencent Group, being a leading player in the Internet, social network and media entertainment industries in the PRC, may have increasing yet unpredictable demand for a wide variety of intellectual properties that may be used for the development of adapted end-products for the consumption by its end-users or customers;
- (c) due to the uniqueness of each intellectual property right (e.g. the popularity of certain intellectual property right), it would be extremely difficult to assign any reasonable or justifiable commercial value to them before they are open for bidding in the open market or being utilized for commercial use. In practice, the Company is only able to determine the values of intellectual property rights to be licensed mainly through formal or informal bidding processes, and inquiries from and negotiations with content adaptation partners. It is therefore impossible for the Company to determine the values of intellectual property rights in advance;
- (d) historically the values of the intellectual property rights to literary works vary to a great extent:
 - (i) neither the Group nor the Retained Tencent Group has full control over the certainty of the commercial terms of these transactions due to the co-existing rights owned by the Group's contracted writers who contributed the intellectual properties and have retained certain commercial rights such as rights to revenue/profit sharing for products adapted from their intellectual properties may influence certainty of the commercial terms of these transactions

- (ii) the value of a single intellectual property right to a particular literary works can vary from a few thousands to millions in RMB in today's intellectual property market and there is a lack of industry standards for the pricing of intellectual properties;
 - (iii) the Group's top 20 historical licensing values for a single intellectual property right varied from RMB5 million to RMB50 million (tax included) in 2018;
 - (iv) the historical licensing values for a single intellectual property right varied from RMB3,000 to RMB50 million (tax included) throughout 2017 and 2018; and
 - (v) the sheer diversity in terms of types or forms of end-products adapted from the intellectual property rights (e.g. films, television and web series, PC and mobile games or animations) also contributed to the extreme disparity between the most valuable intellectual property rights and the least valuable ones;
- (e) historically the transactions under the 2017 IP Cooperation Framework Agreement demonstrate a continuing trend of significant growth, representing a compound annual growth rate of 138.0% from December 31, 2016 to December 31, 2018. Such historical growth rate indicates the significant growth potential of future IP Cooperation CCTs that the future IP Cooperation CCTs have not yet been stabilized;
- (f) given that there may be an increasing number of future IP Cooperation CCTs, it would be unduly burdensome if the Company is required to comply with the disclosure, announcement, circular and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules each time the Group enters into such transactions with the Retained Tencent Group;
- (g) adoption of fixed monetary annual caps for this type of transactions would impose an arbitrary ceiling on the revenue that the Group could derive from this type of business cooperation and will hinder the Group from undertaking transactions that can maximize the commercial values of the intellectual property rights relevant to this type of transactions in a timely and efficient manner; and
- (h) the Company expects to derive its long-term revenue growth partly through monetization of the Group's intellectual properties. Should the Company be made subject to the disclosure, announcement, circular and/or independent shareholders' approval requirement under Chapter 14A of the Listing Rules each time the Company enters into such transactions with the Retained Tencent

Group, the Company will be placed in an extremely disadvantageous position in terms of competition with the Company's peers when it comes to cooperation with the Retained Tencent Group, one of the leading players in the Internet, social network and media entertainment industries in the PRC.

(b) IP Cooperation CCTs with revenue/profit sharing arrangement

With respect to the IP Cooperation CCTs that have revenue/profit sharing arrangements, adoption of monetary annual caps is unsuitable for this type of transactions due to the following reasons:

- (a) similar to the IP Cooperation CCTs that prescribe payment of fixed licensing fees without revenue/profit sharing arrangements, neither the Retained Tencent Group nor the Group will have any control over or visibility of the revenue or profit to be generated from each cooperation project as it will depend on various factors, including but not limited to, the popularity and commercial potential of the Group's intellectual property, scope of adaptation format(s) (e.g. films, television and web series, PC and mobile games or animations), length of adaptation and monetization cycle (i.e., if a particular literary work that is adapted into a television series proves to be particularly successful, it may result in additional derivative works which would derive additional ongoing revenue streams), timing and actual return from such cooperation. If the adaptation of a particular literary work proves to be extremely popular, it would be impracticable for the Group to halt any further monetization of that literary work in order for the Company to seek independent shareholders' approval for any further monetization;
- (b) unlike the Online Platform Cooperation CCTs, it is practically impossible to set a prescribed profit/revenue split between the Retained Tencent Group and the Group that would uniformly apply to all forms of the IP Cooperation CCTs under the IP Cooperation Framework Agreement because:
 - (i) the commercial terms of the IP Cooperation CCTs (including the underlying revenue/profit split among the parties to the cooperation) do not have any identifiable market rates and will always be subject to negotiations between the Retained Tencent Group and the Group as well as other potential counterparties which may be involved (such as production companies, domestic and international distributors, television networks, online and offline advertisement and financing parties) on a project by project basis;
 - (ii) there may be a number of underlying revenue/profit streams that may require different revenue/profit splits between the Retained Tencent Group, the Group, as well as potentially other third-party cooperation partners or investors, depending on the format of the adapted products and the potential derivative works; and

- (iii) the relevant parties may agree on different forms of revenue/profit split or other commercial arrangements that are impossible to be formulated in advance as this also depends on the particular business needs and circumstances; and
- (c) historically the transactions under the 2017 IP Cooperation Framework Agreement demonstrate a continuing trend of significant growth, representing a compound annual growth rate of 138.0% from December 31, 2016 to December 31, 2018. Such historical growth rate indicates the significant growth potential of future IP Cooperation CCTs that the future IP Cooperation CCTs have not yet been stabilized.

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are of the view that the audited revenue of the Group is an appropriate parameter to use in estimating the annual caps of the IP Cooperation CCTs. The Group's revenue is primarily dependent on (a) the scope and quality of its literary content library and (b) the size of user base and level of user engagement. The more number and the higher popularity of the literary titles the Group has, the higher potential there is for it to monetize its literary titles for content adaptation into other forms such as films, television and web series, games, and animation, etc. The Group's revenue is an objective measure of the number of its literary titles through which it generates revenue as well as the quality and popularity of its literary titles as evidenced by users' willingness to pay and read these literary titles. The total revenue would therefore form a good basis for the Group to estimate the likely number of available intellectual properties for content adaptation and to assess the potential licensing value of these available intellectual properties in a given year.

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are also of the view that the percentage of 6% used to calculate the annual cap is fair and reasonable and has been estimated with reference to the following factors:

- (a) as the Group continues to expand our intellectual property operations business and adaptation of our literary works into film, games, audio works, etc., the Company expects that the Group's intellectual property operations business is expected to undergo significant growth in the foreseeable future and the historical revenues generated through the transactions under the 2017 IP Cooperation Framework Agreement (for the years ended December 31, 2016, 2017 and 2018, were RMB46.8 million, RMB111.6 million, RMB264.9 million, respectively) are not indicative of the rapid growth of the IP Cooperation CCTs and should not be used as a reference to estimate the size and volume of IP Cooperation CCTs in the future;

- (b) given the different modes of generating revenue under the IP Cooperation CCTs, the setting of monetary annual caps with reference to total revenue of the Company would provide a measurable safeguard to protect the interest of the Shareholders while allowing sufficient flexibility to capture the growth of the IP business of the Company through cooperation with the Retained Tencent Group;
- (c) it is estimated that the transaction amounts under the IP Cooperation CCTs for the year ending December 31, 2019 will account for approximately 5.9% of the total audited revenue of the Group taking into account the existing contracts entered into between the Retained Tencent Group and the Group as well as the contracts that are under negotiation and are expected to be entered into between the Retained Tencent Group and the Group under the IP Cooperation CCTs;
- (d) the increase in the number of the Group's intellectual properties available for licensing and adaptation and the increase in monetization value of the Group's intellectual properties that are suitable for adaptation as demonstrated by the increase in its literary titles is from 8.4 million as of December 31, 2016 to 10.1 million as of December 31, 2017 and further to 11.2 million as of December 31, 2018;
- (e) the expected rapid growth in the intellectual property adaptation market based on the information provided by Analysys that the annual growth rate of the entertainment industry market (including games, films, television and web series, animations, digital music and digital literary works) in 2019 and 2020 is forecasted to grow at the rate of 17.35% and 12.46%, respectively; and
- (f) the Company recorded significant growth in revenue for the year ended December 31, 2018, which was primarily attributable to the consummation of the acquisition of New Classics Media Holdings Limited (previously known as Qiandao Lake Holdings Limited) and its subsidiaries ("**New Classics Media**") on October 31, 2018. New Classics Media is principally engaged in production and distribution of television series, web series and films in the PRC, and the Company recorded revenue of RMB275.3 million from licensing and distribution of film and television properties attributable to New Classics Media during the two months ended December 31, 2018. As such, while the transaction amount under the IP Cooperation CCTs is expected to continue to experience rapid growth, the significant increase in revenue of the Company of RMB275.3 million from licensing and distribution of film and television properties has outweighed the growth of the revenue of the IP Cooperation CCTs, resulting in the annual cap to be set at a lower percentage of the audited revenue of the Company when compared to the that under the 2017 IP Cooperation Framework Agreement.

Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of setting monetary annual cap under Rule 14A.53(1), subject to the following conditions:

- (a) the waiver, if granted, will only apply to the framework agreements entered into between Shanghai Yueting and Tencent Computer, namely, the transactions contemplated under the 2019 IP Cooperation Framework Agreement which are entered into, on normal commercial terms, in the ordinary and usual course of business of the Company, will be on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole;
- (b) the Company will disclose in its subsequent annual and interim reports (i) a clear description of the bases for calculating the revenue derived from each of the 2019 IP Cooperation Framework Agreement, (ii) the number of underlying transactions under each of the 2019 IP Cooperation Framework Agreement, (iii) a summary of the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement, (iv) the actual transaction amounts of the IP Cooperation CCTs, and (v) the amount of revenue derived from the transactions under the 2019 IP Cooperation Agreements during the financial year as a percentage of the Group's audited revenue in the immediate preceding year;
- (c) the independent non-executive Directors will review the underlying transactions entered into pursuant to the 2019 IP Cooperation Framework Agreements on an annual basis and confirm in its annual reports the matters set out in Rule 14A.55 of the Listing Rules;
- (d) the Company will comply with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the 2019 IP Cooperation Framework Agreements;
- (e) the Company will engage an external auditor to report on, among other things, transactions contemplated in the 2019 IP Cooperation Framework Agreements pursuant to Rule 14A.56 of the Listing Rules. The Company will also ensure that the Retained Tencent Group allow the auditors sufficient access to the Company's records for the purpose of reporting on the transactions contemplated in the 2019 IP Cooperation Framework Agreements;
- (f) the Company and the Board will ensure that the relevant IP Cooperation CCTs are undertaken in accordance with the terms of the 2019 IP Cooperation Framework Agreements and will use their best endeavours to comply with the terms of the 2019 IP Cooperation Framework Agreements and the Listing Rules requirements applicable to the 2019 IP Cooperation Framework Agreements to the extent not waived by the Stock Exchange;

- (g) the Company will disclose in the circular of the Company for the Annual General Meeting for financial year ended December 31, 2018 (i) the background of entering into the 2019 IP Cooperation Framework Agreements, (ii) the salient terms of the 2019 IP Cooperation Framework Agreements, (iii) the grounds of application for waivers set out in the final waiver application(s) submitted to the Stock Exchange, and (iv) the independent non-executive Directors' and the independent financial adviser's views on the fairness and reasonableness of the 2019 IP Cooperation Framework Agreements as a whole;
- (h) the Company will implement internal procedures for the business development team to follow to ensure that the relevant requirements will be duly complied with. Similar to the 2019 Online Platform Cooperation Framework Agreement, the executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the business development team and inquiries into the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement);
- (i) the revenue derived from the IP Cooperation CCTs during one financial year will not exceed 6% of the audited revenue of the Group in respect of the immediate preceding financial year;
- (j) the waiver, if granted, will be subject to the approval of the Board and the confirmation of the independent non-executive Directors;
- (k) the Company will re-comply with Chapter 14A of the Listing Rules as fast as practicable should any of the above conditions no longer exists; and
- (l) to keep the Shareholders and public investors informed of the monetary annual cap for the IP Cooperation CCTs for a given year, the Company will issue an announcement on the monetary annual cap when the Company issues the results announcement for the immediate preceding year or thereafter (which will set out our audited total revenue for that year).

Reasons and Benefits for Entering the 2019 IP Cooperation Framework Agreement

The Group generated revenues by monetizing the Group's vast literary contents in various manners through its own platforms as well as other platforms including the Retained Tencent Group Platforms, including, among others, copyright licensing for adaptation of the Group's literary works sourced from the Group's online community into films, television and web series, PC and mobile games and animations. The Retained Tencent Group is a leading player in the Internet, social media and entertainment industries in the PRC with an extensive network coverage and a vast

user base, the Group's cooperation with the Retained Tencent Group will continue to maximize the commercial value of the literary works of the Group and further enhance the business growth of the Group.

Pricing Policies

The commercial arrangements to be agreed between the Group and the Retained Tencent Group will vary from project to project and will be determined by taking into account the following factors:

- (i) various commercial factors such as the nature, popularity and commercial potential of the subject project and market practice for similar projects;
- (ii) whether the IP Cooperation CCTs may involve other third parties (such as downstream production and distribution partners, financial investors and writers), which depend on the subject of the content adaptation and the value that the counterparties are able to bring to the cooperation; and
- (iii) the range of ancillary rights to be agreed such as co-investment rights and/or co-development rights in relation to products to be adapted from the literary works among all or certain cooperating business partners.

The Business Development Team will seek to solicit cooperation with other Independent Third Parties to the extent practicable and compare the commercial terms (including but not limited to licensing value of the subject intellectual property, profit/revenue sharing arrangement, terms of cooperation and availability of co-investment or co-development right) offered by those Independent Third Parties with those offered by the Retained Tencent Group. In making the decision as to whether the Group should cooperate with the Retained Tencent Group (whether with or without involvement of other third parties), other factors (beside the aforementioned commercial terms) that the Business Development Team will consider include but will not be limited to the revenue or profit that may be brought by the proposed transactions, production capability, distribution channels (and their end-user/customer base) and financial resources of the counterparties. The Group will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject intellectual properties can be maximized and the relevant IP Cooperation CCTs are in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

For the years ended December 31, 2016, 2017 and 2018, the fees paid by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing are set out below:

	For the year ended December 31,		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees paid by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	46,774	111,621	265,214

ENTERING INTO NEW CONTINUING CONNECTED TRANSACTION

Advertisement Cooperation Framework Agreement

Principal Terms of the Advertisement Cooperation Framework Agreement are set out as follows:

Date:	: March 18, 2019
Parties	: (1) Shanghai Yueting (on behalf of the Group); and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Subject matter	: The Group agreed to place advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group.
Fee arrangements	The Retained Tencent Group shall share its revenue with the Group for revenue generated through the Platforms of the Group. Please refer to the below section headed "Proposed Annual Caps and Basis of Determination" for further details of the revenue sharing arrangement.

Payment and settlement terms

Payment and settlement terms under the Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Advertisement Cooperation Framework Agreement.

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the aggregate amounts of the revenue generated through the Advertisement Cooperation CCTs for the three years ending December 31, 2021 are set out as follows:

	For the year ending December 31,		
	2019	2020	2021
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Aggregate amounts of the revenue generated under the cooperation in placing advertisement payable by the Retained Tencent Group to the Group	503,048	754,571	905,486

The above proposed annual caps has been determined taking into account the following factors:

(a) Revenue sharing arrangement with the Retained Tencent Group

The revenue arising out of the cooperation under the Advertisement Cooperation Framework Agreement shall be split between the relevant parties and shall be determined in accordance with the following formula:

Net Proceeds of the Advertisement × prescribed revenue sharing percentage

Net proceeds of the advertisement (the “**Net Proceeds of the Advertisement**”) shall refer to the aggregate net amount of deposits generated from the advertisements which are solicited by the Retained Tencent Group being placed on the Platforms of the Group after deduction of the reasonable expenses (if any) incurred by the Retained Tencent Group. The amount to be shared by the Group for each of the underlying cooperation under the Advertisement Cooperation Framework Agreement shall not be less than the Net Proceeds of the Advertisement received pursuant to the relevant cooperation in the placing of advertisements which are solicited by the Retained Tencent Group on the Platforms × 65%.

(b) Advertising fee rate charged

The advertising fee rate for the advertisement placed on the Platforms of Group has been determined with reference to the advertising fee rate charged by the existing industry players operating the business model of monetization of free literary works through advertisement, and will be charged on one or more of the following methods depending on the means of cooperation and the Platforms of the Group where the advertisements are placed:

- Cost-Per-Time: charged on the basis of length of duration of advertising services;
- Cost-Per-Click: charged on the basis of the price of each click and number of clicks of online users;
- Cost-Per-Download: charged on the basis of actual download volumes of the products or services offered by the advertisers;
- Cost-Per-Activation: charged on the basis of number of newly activated users;
- Cost-Per-Sale: charged on the basis of revenue generated from users procured through the Platforms of the Group;
- Cost-Per-Mille: charged on the basis of the number of impressions (expressed in thousands) generated by online users; and/or
- other fees arrangements agreed by the parties.

(c) Online traffic generated by the Platforms of the Group

The Company estimated the online traffic generated by the Platforms of the Group based on the page views by the online users on the Platforms of the Group, which are in turn estimated by the Company taking into factors such as user portfolio of the Platforms of the Group, the reading habits of the users on the Platforms of the Group, the number of advertisements to be placed per each literary works offered on the Platforms of the Group.

Reasons and Benefits for entering into the Advertisement Cooperation Framework Agreement

In 2018, the industry has seen new players who offer literary content for free and earn revenue through advertisements. The Company considers imperative to enter such new market segment to capture the growth potential of the market and gain its market

shares. As the Retained Tencent Group is a leading integrated service provider for online advertisement solicitation, the Group intends to cooperate with the Retained Tencent Group on advertisement and explore such new business model. Accordingly, the Group intends to enter into the Advertisement Cooperation Framework Agreement with the Retained Tencent Group, pursuant to which the Retained Tencent Group shall solicit online advertisement and place on the Platforms of the Group and the Retained Tencent Group shall share its advertising revenue with the Group.

Pricing Policies

The prescribed percentages for the revenue generated from the advertisement which are solicited by the Retained Tencent Group being placed on the Platforms of the Group shared by the Group will vary from platform to platform and shall be determined between the relevant parties on an arms-length basis from time to time and will in any event be 65% or more. Generally, when determining the prescribed percentage for a specific advertisement cooperation, the Group will take into account factors such as the coverage of advertisement solicited by the Retained Tencent Group and other services that may be required by the Group or the Retained Tencent Group

The arrangement with the Retained Tencent Group is not directly comparable with those between the Group and other third party distribution channels, primarily because the Retained Tencent Group is a leading integrated service provider for online advertisement solicitation and it is critical for the Group to be able to leverage on the Retained Tencent Group's existing end-user base of advertisers to monetize the free literary work to be offered by the Group and capture the Group's share in the new market with rising number of new market entrants.

INTERNAL CONTROL MEASURES

With regard to the 2019 Online Platform Cooperation Framework Agreement, the Company will implement internal procedures to ensure that the Online Platform Cooperation CCTs are undertaken in accordance with the terms of the 2019 Online Platform Cooperation Framework Agreement and the underlying transaction agreements entered into pursuant to or governed by the 2019 Online Platform Cooperation Framework Agreement. The executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the relevant internal departments to discuss issues relating to the Online Platform Cooperation CCTs or any potential deviations from the terms of the 2019 Online Platform Cooperation Framework Agreement and the underlying transaction agreements);

With regard to the 2019 IP Cooperation Framework Agreement, the Company will implement internal procedures for the business development team to follow to ensure that the relevant requirements will be duly complied with. Similar to the 2019 Online Platform Cooperation Framework Agreement, the executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the business development team and inquiries into the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement); and

With regard to the Advertisement Cooperation Framework Agreement, the Company will implement internal procedures to ensure that the relevant requirements will be duly complied with. Similar to the 2019 Online Platform Cooperation Framework Agreement, the executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the business development team and making inquiries into the transactions undertaken pursuant to the Advertisement Cooperation Framework Agreement).

OPINION FROM THE BOARD

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are of the view that terms of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement (including the proposed annual caps thereunder for the three years ending December 31, 2021) 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 the Shareholders as a whole.

The independent non-executive Directors have formed the Independent Board Committee for the purposes of advising the independent Shareholders in respect of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement and the transactions contemplated under the (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2021) and whose views and recommendation will be included in the circular to be despatched by the Company.

Mr. James Gordon Mitchell, Ms. Li Ming and Mr. Lin Haifeng, all being Directors, are employees of Tencent, and have therefore abstained from voting on the relevant Board resolutions approving each of the (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement. Save as disclosed above, none of the other Directors have abstained from voting on the relevant resolutions at the Board meeting.

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.

Tencent is principally engaged in investment and shareholding. Tencent Computer is principally engaged in provision of internet value-added services and advertisement services in the PRC.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling shareholder of the Company, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for each of (i) the 2019 Online Platform Cooperation Framework Agreement, (ii) the 2019 IP Cooperation Framework Agreement, and (iii) the Advertisement Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under the each of the 2019 Online Platform Cooperation Framework Agreement, the 2019 IP Cooperation Framework Agreement and the Advertisement Cooperation Framework Agreement (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders; and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders, is expected to be despatched to Shareholders by no later than April 9, 2019.

DEFINITIONS

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

“Advertisement Cooperation CCTs”	the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group under the Advertisement Cooperation Framework Agreement
“Advertisement Cooperation Framework Agreement “	a framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of Retained Tencent the Group) on March 18, 2019 in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group
“Annual General Meeting”	the annual general meeting of the Company which is expected to be held on or around May 17, 2019
“Audio and Comics Cooperation Agreement”	a framework agreement entered into on March 20, 2018 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, cooperation on audio and comics works
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Business Development Team”	designated business development team of the Group comprising certain personnel responsible for overseeing its intellectual property operations

“Company”	China Literature Limited, an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the main board of the Stock Exchange with stock code 772
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IP Cooperation CCTs”	the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property these works under the 2019 IP Cooperation Framework Agreement
“Independent Board Committee”	the independent committee of the Board, comprising Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, being all the independent non-executive Directors, established for the purpose of, among other things, advising the independent Shareholders in respect of the 2019 Online Platform Cooperation Framework Agreement, the 2019 IP Cooperation Framework Agreement, the Advertisement Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2021)
“Independent Third parties”	any entity or person who is not a connected person of our Company within the meaning ascribed there to under the Listing Rules
“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
“Online Platform Cooperation CCTs”	the cooperation in the literary works and audio works under the 2019 Online Platform Cooperation Framework Agreement

“Platforms of the Group “	the self-owned platforms and self-operated channels on Tencent products
“PRC”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, Macau and Taiwan
“Retained Tencent Group”	Tencent and its subsidiaries, excluding the Group
“Retained Tencent Group Platforms”	the Group’s self-operated channels on the Retained Tencent Group platforms
“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 previously known as Shengting Information Technology (Shanghai) Co., Ltd.), 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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tencent”	Tencent Holdings Limited, one of the controlling shareholders of the Company, 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 with stock code 700
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent
“2017 Online Platform Cooperation Framework Agreement”	a framework agreement entered into on between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Group) on October 21, 2017 relating to the cooperation in the distribution of the Group’s literary works through the Retained Tencent Group Platforms

“2017 IP Cooperation Framework Agreement”	a framework agreement entered into between Shanghai Yueting (on behalf of the Retained Tencent Group) and Tencent Computer (on behalf of the Group) on October 21, 2017 in relation to the cooperation in the content adaptation of the Company’s literary works and/or distribution of products adapted from these literary works
“2019 Online Platform Cooperation Framework Agreement”	a framework agreement entered into between Shanghai Yueting (on behalf of the Retained Tencent Group) and Tencent Computer (on behalf of the Group) on March 18, 2019 in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through the Retained Tencent Group Platforms
“2019 IP Cooperation Framework Agreement”	a framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on March 18, 2019 in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the Group’s products (including but not limited to audio works and comics) and/or the derivative rights related to the intellectual property rights of the intellectual property of these works
%	<i>percent</i>

* *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, March 18, 2019

As at the date of this announcement, the Board 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.