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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)**

## **CONNECTED TRANSACTION IN RELATION TO THE ACQUISITIONS OF 20% EQUITY INTEREST IN OBU**

### **THE ACQUISITIONS**

The Board is pleased to announce that on September 27, 2019, Cloudary (a wholly-owned subsidiary of the Company) has entered into the Acquisition Agreements with Kapok Tree, Ookbee and/or OBU (as applicable), pursuant to which (i) Kapok Tree has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 10.2443% of total issued shares of OBU; (ii) Ookbee has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 3.1945% of total issued shares of OBU; and (iii) Cloudary has agreed to subscribe, and OBU has conditionally agreed to issue and allot, 6.5612% of total issued shares of OBU (on a fully diluted basis), at the aggregate Consideration of USD10,511,178. Upon the Completion, Cloudary will hold 20% of total issued shares of OBU.

### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Tencent is the controlling shareholder of the Company. Kapok Tree is a wholly-owned subsidiary of Tencent and is therefore a connected person of the Company. OBU is held by Tencent as to 42.00% and is an associate of Tencent and thus a connected person of the Company. Therefore, the transactions contemplated under the Acquisition Agreements are connected transactions of the Company.

As the highest applicable percentage ratio in respect of the Acquisition Agreements is more than 0.1% but all the percentage ratios are below 5%, the Acquisition Agreements and the transactions contemplated thereunder constitute connected transactions of the Company, and are therefore subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

## INTRODUCTION

The Board is pleased to announce that on September 27, 2019, Cloudary (a wholly-owned subsidiary of the Company) has entered into the Acquisition Agreements with Kapok Tree, Ookbee and/or OBU (as applicable), pursuant to which (i) Kapok Tree has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 10.2443% of total issued shares of OBU; (ii) Ookbee has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 3.1945% of total issued shares of OBU; and (iii) Cloudary has agreed to subscribe, and OBU has conditionally agreed to issue and allot, 6.5612% of total issued shares of OBU (on a fully diluted basis), at the aggregate Consideration of USD10,511,178. Upon the Completion, Cloudary will hold 20% of total issued shares of OBU.

## THE ACQUISITION AGREEMENTS

### Date

September 27, 2019

### Parties

1. Cloudary, a wholly-owned subsidiary of the Company (as the purchaser and subscriber);
2. Kapok Tree, a wholly-owned subsidiary of Tencent (as the seller);
3. Ookbee (as the seller); and
4. OBU (as the target).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the date of this announcement, (i) Ookbee and its ultimate beneficial owners are parties independent of the Company and its connected persons; and (ii) OBU is owned by Ookbee and Kapok Tree as to 58.00% and 42.00%, respectively.

### Subject Matter

Cloudary entered into the Acquisition Agreements with Kapok Tree, Ookbee and/or OBU (as applicable), pursuant to which (i) Kapok Tree has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 10.2443% of total issued shares of OBU ("**Kapok Purchased Shares**"); (ii) Ookbee has conditionally agreed to sell, and Cloudary has conditionally agreed to acquire, 3.1945% of total issued shares of OBU ("**Ookbee Purchased Shares**"); and (iii) Cloudary has agreed to subscribe, and OBU has conditionally agreed to issue and allot, 6.5612% of total issued shares of OBU (on a fully diluted basis) ("**Subscription Shares**"), at the aggregate Consideration of USD10,511,178.

Upon the Completion, OBU will be owned by Ookbee, Kapok Tree and Cloudary as to 51.00%, 29.00% and 20.00%, and OBU will be an associated company of the Company.

## **Consideration and Payment Terms**

The total Consideration payable by Cloudary for the Acquisitions is USD10,511,178, which is consisted of USD3,946,908 for the Kapok Purchased Shares, USD2,000,000 for the Ookbee Purchased Shares and USD4,564,270 for the Subscription Shares. The Consideration shall be settled by Cloudary in cash on the date of the Completion.

The original acquisition cost of the 10.2443% of total issued shares of OBU paid by Kapok Tree was USD3,785,063, which was paid by Kapok Tree in full to OBU.

## **Basis of Consideration**

The Consideration was determined by the parties after arm's length negotiations with reference to, among others, the business development and future prospects of OBU, the synergy of OBU with the Company, and the reasons for and benefits of the Acquisitions as stated under the section headed "Reasons for and Benefits of the Acquisitions" in this announcement.

## **Financial Compensation**

Ookbee and OBU jointly and severally agree, as primary obligor, to pay to Cloudary financial compensation if OBU fails to meet the pre-determined minimum benchmark targets for the financial year ending December 31, 2020. The financial compensation shall be paid to Cloudary in cash by Ookbee as priority. If Ookbee fails to fulfil the cash payment or acceptable to Cloudary, Ookbee and OBU shall choose other modes of settlement such as transferring additional shares of OBU held by Ookbee to Cloudary at zero cost (or, if required by law, at par value or such other minimum cost permitted under applicable laws).

## **Completion**

Completion shall take place on the fifth (5th) business day following the date of the notice delivered by Cloudary to Kapok Tree, Ookbee and OBU confirming that all of the conditions have been fulfilled or waived. The acquisition of the Ookbee Purchased Shares from Ookbee, the acquisition of the Kapok Purchased Shares from Kapok Tree and the subscription of the Subscription Shares by Cloudary are inter-conditional.

## **Miscellaneous**

Cloudary, Kapok Tree, Ookbee and OBU shall also enter into a shareholders' agreement upon Completion which contains customary provisions such as reserved matters, dividend policy and transfer restrictions. In addition, Ookbee and all of its founders shall also enter into non-compete undertakings in favor of, among others, Cloudary that they will not engage in any business which competes with the business of OBU.

In order to better explore potential opportunities and penetrate the Thailand online literature market, Cloudary and Ookbee will establish the JV Company, which will be held by Cloudary and Ookbee as to 60% and 40%, respectively. Please see the section below headed “Reasons for and Benefits of the Acquisitions – Closer Collaboration After the Acquisitions” for further details on the JV Company. In this connection, Ookbee and all of its founders shall also enter into non-compete undertakings in favor of Cloudary and the JV Company that they will not engage in any business which competes with the business of the JV Company.

## **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. Cloudary is an indirectly wholly-owned subsidiary of the Company. Cloudary is principally engaged in providing online literature services outside of the PRC.

Tencent and its subsidiaries are principally engaged in the provision of value-added services and online advertising services to users in the PRC. Kapok Tree is a wholly-owned subsidiary of Tencent and is principally engaged in investment holding.

Ookbee is an established internet company principally engaged in operating digital content platforms and providing both PGC and UGC digital contents to internet users mainly in Thailand.

OBU is a private limited company incorporated under the laws of Thailand and is principally engaged in the business of providing online literature and digital lifestyle content through various online platforms owned by it and its subsidiaries. For the financial years ended December 31, 2017 and 2018, OBU recorded a net loss of THB107,868,445 and THB178,527,320, respectively, with a total asset of THB632,540,618 and THB482,260,560 as of December 31, 2017 and 2018.

## **REASONS FOR AND BENEFITS OF THE ACQUISITIONS**

### **Favorable Macroeconomics of Thailand**

With the second largest nominal gross domestic products (“GDP”) and fourth highest GDP per capita among all association of southeast Asian nations (“ASEAN”) countries in 2018, Thailand’s economy has experienced stable growth, resulting in increasing household expenditure in recent years.

With approximately 57 million Internet users, Thailand has one of the highest Internet penetration among ASEAN countries, while its high-speed Internet cost is one of the lowest. Moreover, in recent ‘Thailand 4.0’ policy, which is an economic policy to develop Thailand into a value-based economy and digital economy, the Thailand government emphasizes several crucial goals that will help further foster the Internet industry, including digital infrastructure development to achieve 100% penetration in high speed Internet and mobile broadband, building confidence in using digital technology, promoting E-commerce and Internet banking and etc.

Although the overall publication industry in Thailand has witnessed a declining trend over the past few years, most publishers and content creators rely on traditional channels like bookstores as the main sales channel, whilst online channels such as E-book, self-publishing and UGC channels are still at initial stages. Based on management interview with leading online literature platform, the Company expects online literature market in Thailand to grow at a faster pace with increasing awareness about online literature and its market potential among Internet users, content creators, local publishers and foreign content providers.

## **Established Platforms and Experienced Team of OBU**

There are different reading platforms under OBU providing online literature service to users in Thailand, including UGC platform Tunwalai, first UGC chat story platform in Thailand Joylada, UGC and PGC platform Fictionlog etc. According to the rankings published by App Annie Inc., a globally recognized app analytics company, and statistics from various third parties, overall user metrics such as application download, total application grossing and active users of OBU's reading platforms have been consistently higher than most comparable platforms in Thailand.

Besides, OBU has a team with both proven track record and spirit of innovation with its core management having average work experience over 10 years. Over the past few years, the team has developed and incubated various innovative platforms or business lines both on OBU and Ookbee level, including first chat story platform in Thailand, an independent music community, a lifestyle video community and a film/television series studio. Moreover, these diversified platforms and business lines in turn enhance OBU and Ookbee's capability of IP adaptation in the future.

## **Closer Collaboration After the Acquisitions**

The JV Company is also an effort of the Company to better explore potential opportunities and penetrate the Thailand online literature market. Through the JV Company, Cloudary would be able to act as a content provider which engages in signing and distributing local UGC and PGC contents, as well as a content agency which engages in signing and distributing contents from foreign content providers and creators. The Company may also cooperate with OBU and Ookbee in the operation of the reading platforms under OBU in the future.

## **OPINION FROM THE BOARD**

The Directors (including the independent non-executive Directors) are of the view that terms of the Acquisition Agreements were determined after arm's length negotiations, and the transactions contemplated thereunder are conducted in the ordinary and usual business of the Company and 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. Chen Fei, all being Directors, are employees of Tencent, and have therefore abstained from voting on the relevant Board resolutions approving the Acquisition Agreements and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the Acquisition Agreements.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Tencent is the controlling shareholder of the Company. Kapok Tree is a wholly-owned subsidiary of Tencent and is therefore a connected person of the Company. OBU is held by Tencent through Kapok Tree as to 42.00% and is an associate of Tencent and thus a connected person of the Company. Therefore, the transactions contemplated under the Acquisition Agreements are connected transactions of the Company.

As the highest applicable percentage ratio in respect of the Acquisition Agreements is more than 0.1% but all the percentage ratios are below 5%, the Acquisition Agreements and the transactions contemplated thereunder constitute connected transactions of the Company, and are therefore subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

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

“Acquisition Agreements”	collectively, the share purchase agreement between Cloudary and Kapok Tree dated September 27, 2019 in respect of the sale of the Kapok Purchased Shares by Kapok Tree to Cloudary, the share purchase agreement between Cloudary and Ookbee dated September 27, 2019 in respect of the sale of the Ookbee Purchased Shares by Ookbee to Cloudary, the share subscription agreement between Cloudary and OBU dated September 27, 2019 in respect of the subscription of the Subscription Shares by Cloudary, and the valuation adjustment agreement between Cloudary, Ookbee and OBU dated September 27, 2019 in respect of the financial compensation;
“Acquisitions”	the acquisitions pursuant to the Acquisition Agreements;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Cloudary”	Cloudary Holdings Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company;
“Company”	China Literature Limited, an exempted 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;
“Completion”	the completion of the Acquisition;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the consideration payable by Cloudary to Kapok Tree, Ookbee and OBU pursuant to the Acquisition Agreements;
“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;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“JV Company”	Ink Stone Entertainment Co., Ltd., a private limited company organized under the laws of the Thailand to be held by Cloudary and Ookbee as to 60% and 40%, respectively;
“Kapok Tree”	Kapok Tree Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Tencent;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, 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;
“OBU”	Ookbee U Company Limited, a private limited company incorporated on December 22, 2016 under the laws of Thailand;
“Ookbee”	Ookbee Company Limited, a private limited company incorporated under the laws of Thailand;
“PGC”	any content provided by a professional production company or professionals including but not limited to novels, fiction, music, comics, blogs, wikis, discussion forums, posts, chats, tweets, podcasts, digital images, video, audio files, advertisements and other forms in an online system or service;
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Revenue”	the annual revenue of OBU;
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each;
“Shareholder(s)”	holder(s) of the 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, a limited liability company organised and existing under the law of Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange with stock code 700, and the controlling shareholder of the Company;
“THB”	Thai Baht, the lawful currency of Thailand;
“UGC”	any content generated by users of the online platforms; and
“USD”	United States dollar, the lawful currency of the United States.

By order of the Board  
**CHINA LITERATURE LIMITED**  
**Mr. James Gordon Mitchell**  
*Chairman of the Board and Non-executive Director*

Hong Kong, September 27, 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, Mr. Cao Huayi and Ms. Chen Fei as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.*