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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

**CONTINUING CONNECTED TRANSACTIONS
TERMINATION OF THE EXISTING CONTRACTUAL ARRANGEMENTS
AND
ENTERING INTO THE NEW CONTRACTUAL ARRANGEMENTS**

Reference is made to the Prospectus in relation to, among other things, the contractual arrangements.

The Board hereby announces that, in order to enhance the internal control and management system of the Group and for administration efficiency purpose, on March 22, 2022, the relevant parties as detailed below entered into the following agreements to change the registered shareholders of the PRC Holdcos from the Departed Senior Management to Litong:

- (i) ***Transfers by Yuebao to Litong:*** Yuebao and Litong entered into equity transfer arrangements, pursuant to which Yuebao agreed to transfer to Litong 34.62% of the equity interests in each of the PRC Holdcos respectively and upon the completion of such transfers, the PRC Holdcos will be held by Litong as to 100%;
- (ii) ***Reproduction of Existing Contractual Arrangements:*** the Company and relevant parties agreed to terminate the Existing Contractual Arrangements and entered into the New Contractual Arrangements having terms and conditions substantially the same as the Existing Contractual Arrangements. The New Contractual Arrangements were entered into among the WFOEs, the PRC Holdcos and Litong, through which the Company can consolidate all the economic benefits generated by the PRC Holdcos and their respective subsidiaries.

In light of the aforementioned Restructuring of the Group, (i) the Existing Contractual Arrangements were terminated with effect from March 22, 2022; and (ii) the New Contractual Arrangements were entered into on substantially the same terms as those currently in place under the Existing Contractual Arrangements concurrently with effect from the termination of the Existing Contractual Arrangements on March 22, 2022.

LISTING RULES IMPLICATIONS

At the time of the Listing, the Stock Exchange has granted the VIE Waiver in connection with the continuing connected transactions of the Group in the form of the Existing Contractual Arrangements, subject to certain conditions as set out therein. As disclosed in the Prospectus, the Existing Contractual Arrangements may be renewed and/or reproduced without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Existing Contractual Arrangements. Since the New Contractual Arrangements are a reproduction of the Existing Contractual Arrangements as provided under the conditions of the VIE Waiver, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Contractual Arrangements would continue to fall within the scope of the VIE Waiver and are exempt from (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the New Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the New Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the New Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange, subject to compliance with the same conditions of the VIE Waiver.

INTRODUCTION

Reference is made to the Prospectus in relation to the Existing Contractual Arrangements in the section headed "Contractual Arrangements" in the Prospectus.

The Board hereby announces that, in order to enhance the internal control and management system of the Group and for administration efficiency purpose, on March 22, 2022, the relevant parties as detailed below entered into the following agreements to change the registered shareholders of the PRC Holdcos from the Departed Senior Management to Litong:

- (i) **Transfers by Yuebao to Litong:** Yuebao and Litong entered into equity transfer arrangements, pursuant to which Yuebao agreed to transfer to Litong 34.62% of the equity interests in each of the PRC Holdcos respectively and upon the completion of such transfers, the PRC Holdcos will be held by Litong as to 100%;
- (ii) **Reproduction of Existing Contractual Arrangements:** the Company and relevant parties agreed to terminate the Existing Contractual Arrangements and entered into the New Contractual Arrangements having terms and conditions substantially the same as the Existing Contractual Arrangements. The New Contractual Arrangements were entered into among the WFOEs, the PRC Holdcos and Litong, through which the Company can consolidate all the economic benefits generated by the PRC Holdcos and their respective subsidiaries.

In light of the aforementioned Restructuring of the Group, (i) the Existing Contractual Arrangements were terminated with effect from March 22, 2022; and (ii) the New Contractual Arrangements were entered into on substantially the same terms as those currently in place under the Existing Contractual Arrangements concurrently with effect from the termination of the Existing Contractual Arrangements on March 22, 2022.

REASONS FOR AND BENEFITS OF THE RESTRUCTURING

Before the Equity Transfer Agreements coming into effect, both of the PRC Holdcos are controlled by Litong and Yuebao as to 65.38% and 34.62%, respectively. Litong is a subsidiary of Tencent. Yuebao is owned by the Departed Senior Management, namely, Mr. Wu Wenhui (吳文輝) as to 83.88%, Mr. Shang Xuesong (商學松) as to 5.37%, Mr. Lin Tingfeng (林庭鋒) as to 5.37%, Mr. Hou Qingchen (侯慶辰) as to 2.69% and Mr. Luo Li (羅立) as to 2.69%. The shareholding arrangement of the PRC Holdcos resulted from the historical fact that the Departed Senior Management acting as the senior management of the Group as at the date of the Prospectus.

As of the date of this announcement, the Departed Senior Management are no longer the senior management of the Group due to the personal reasons. The Restructuring (i) will align the interests of the registered shareholder of the PRC Holdcos with that of the Company and facilitate the internal control and management of the PRC Holdcos; and (ii) enhances administration efficiency such that various administrative matters or filings could be more efficiently and effectively handled. For the avoidance of doubt, the Restructuring will not result in substantial change to the shareholding structure and the corporate governance structure of the Company.

As disclosed in the Prospectus, due to applicable laws and regulatory (i) prohibitions on the operation of Internet publication, audio-visual program services to the public; and online games (collectively the “**Prohibited Businesses**”) by foreign ownership, (ii) restrictions on foreign investors conducting value-added telecommunications services businesses (the “**Restricted Businesses**”, together with the Prohibited Businesses, the “**Relevant Businesses**”), the Group has in place a series of contractual arrangements among the Company, the PRC Holdcos and WFOEs that are designed to allow the Company to exercise control over the operations of the PRC Holdcos and enjoy the economic benefits generated by the PRC Holdcos. Please refer to the section headed “Contractual Arrangements” of the Prospectus for the detailed reasons why the Group’s businesses are required to be carried out by way of contractual arrangements from a perspective of compliance of PRC laws and the details of the Existing Contractual Arrangements. The Company will unwind and terminate the New Contractual Arrangements wholly or partially once the Group’s businesses are no longer prohibited or restricted from foreign investment.

The PRC Legal Advisor is of the opinion that the New Contractual Arrangements are narrowly tailored to minimize potential conflict with relevant PRC laws and regulations and that:

- (i) the use of the New Contractual Arrangements does not constitute a breach of applicable laws and regulations of the PRC in any material respect;
- (ii) the New Contractual Arrangements do not contravene the current articles of association of the PRC Holdcos;
- (iii) each of the New Contractual Agreements is binding on the parties thereto and none of them would be void under the Civil Code of the PRC (《中華人民共和國民法典》);
- (iv) except for the clauses providing that (a) an arbitral body may award injunctive relief or winding up orders and that courts in Hong Kong and the Cayman Islands may grant interim remedies may not be enforceable under PRC laws; (b) the equity interest pledge contemplated under the New Contractual Arrangements will not become effective until registration with competent governmental authorities; and (c) the clause providing that the shareholder of the PRC Holdcos undertakes to appoint a committee designated by the WFOEs as the liquidation committee upon the winding up of the PRC Holdcos to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws (collectively, the “**Exceptions**”), the New Contractual Arrangements are enforceable under the laws of the PRC; and
- (v) notwithstanding paragraph (iv) above, as such Exceptions will not affect the effectiveness of the agreements under the New Contractual Arrangements conferring significant control and economic benefits from the PRC Holdcos to the Company, each of the agreements under the New Contractual Arrangements will become effective, valid, legally binding on the parties thereto, and enforceable under the PRC laws and regulations once it has been duly executed.

Based on the above analysis and advice from the PRC Legal Advisor, the Company is of the view that (i) the likelihood that the adoption of the New Contractual Arrangement is deemed ineffective or invalid under the applicable PRC laws and regulations is remote and the use of the New Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations in any material respect; and (ii) it was not viable for the Company to hold the Consolidated Affiliated Entities directly through equity ownership. Instead, the Board decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions and prohibitions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by the Consolidated Affiliated Entities through the New Contractual Arrangements between the WFOEs, on the one hand, and the Consolidated Affiliated Entities and Litong, on the other hand.

TERMINATION OF THE EXISTING CONTRACTUAL ARRANGEMENTS AND ESTABLISHMENT OF THE NEW CONTRACTUAL ARRANGEMENTS

Set forth below is the structure of the New Contractual Arrangements:



“-----►” denotes contractual relationship.

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MAJOR TERMS OF THE NEW CONTRACTUAL ARRANGEMENTS

A summary of the principal terms of the New Contractual Arrangements is set out below:

New Exclusive Business Cooperation Agreements

Under the new exclusive business cooperation agreements dated March 22, 2022 between the PRC Holdcos and the WFOEs (the “**New Exclusive Business Cooperation Agreements**”), pursuant to which, in exchange for a monthly service fee, the PRC Holdcos agreed to engage the WFOEs as its exclusive provider of technical support, consultation and other services, including the following services:

- the use of any relevant software legally owned by the WFOEs;
- development, maintenance and updating of software in respect of the PRC Holdcos’ business;
- design, installation, daily management, maintenance and updating of network systems, hardware and database design;
- providing technical support and staff training services to relevant employers of the PRC Holdcos;
- providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under PRC laws);
- providing business management consultation;
- providing marketing and promotional services;
- providing customer order management and customer services;
- transfer, leasing and disposal of equipment or properties; and
- other relevant services requested by the PRC Holdcos from time to time to the extent permitted under PRC laws.

Under the New Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOEs may adjust the scope and amount of services fees according to PRC tax law and tax practices, and the PRC Holdcos will accept such adjustments. The WFOEs shall calculate the service fee on a monthly basis and issue a corresponding invoice to the PRC Holdcos. Notwithstanding the payment arrangements in the New Exclusive Business Cooperation Agreements, the WFOEs may adjust the payment time and payment method, and the PRC Holdcos will accept any such adjustment.

In addition, absent the prior written consent of the WFOEs, during the term of the New Exclusive Business Cooperation Agreements, with respect to the services subject to the New Exclusive Business Cooperation Agreements and other matters, the PRC Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the New Exclusive Business Cooperation Agreements with any third party. The WFOEs may appoint other parties, who may enter into certain agreements with the PRC Holdcos, to provide the PRC Holdcos with the services under the New Exclusive Business Cooperation Agreements.

The New Exclusive Business Cooperation Agreements also provide that the WFOEs have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the PRC Holdcos during the performance of the New Exclusive Business Cooperation Agreement.

The New Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in accordance with the provisions of the New Exclusive Business Cooperation Agreements; (b) in writing by the WFOEs; or (c) renewal of the expired business period of either the WFOE or the PRC Holdcos is denied by relevant government authorities, at which time the New Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

New Exclusive Option Agreements

Under the new exclusive option agreements dated March 22, 2022 among the PRC Holdcos, the WFOEs and Litong (the “**New Exclusive Option Agreements**”), the WFOEs have the rights to require Litong to transfer any or all its equity interests in the PRC Holdcos to the WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to Litong (or part of the loan amounts in proportion to the equity interests being transferred).

The PRC Holdcos and Litong, among other things, have covenanted that:

- without the prior written consent of the WFOEs, they shall not in any manner supplement, change or amend the constitutional documents of the PRC Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;
- they shall maintain the PRC Holdcos' corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;
- without the prior written consent of the WFOEs, they shall not at any time following the signing of the New Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the PRC Holdcos or legal or beneficial interest in the material business or revenues of the PRC Holdcos of more than US\$5,000,000, or allow the encumbrance thereon of any security interest;
- without the prior written consent of the WFOEs, the PRC Holdcos shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;
- the PRC Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the PRC Holdcos' operating status and asset value;
- without the prior written consent of the WFOEs, they shall not cause the PRC Holdcos to execute any material contract with a value above US\$5,000,000, except the contracts executed in the ordinary course of business;
- without the prior written consent of the WFOEs, they shall not cause the PRC Holdcos to provide any person with any loan or credit;
- they shall provide the WFOEs with information on the PRC Holdcos' business operations and financial condition at the request of the WFOEs;
- if requested by the WFOEs, they shall procure and maintain insurance in respect of the PRC Holdcos' assets and business from an insurance carrier acceptable to the WFOEs, at an amount and type of coverage typical for companies that operate similar businesses;
- without the prior written consent of the WFOEs, they shall not cause or permit the PRC Holdcos to merge, consolidate with, acquire or invest in any person;
- they shall immediately notify the WFOEs of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the PRC Holdcos' assets, business or revenue;

- to maintain the ownership by the PRC Holdcos of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;
- without the prior written consent of the WFOEs, the PRC Holdcos shall not in any manner distribute dividends to their shareholder, provided that upon the written request of the WFOEs, the PRC Holdcos shall immediately distribute all distributable profits to their shareholder;
- at the request of the WFOEs, they shall appoint any persons designated by the WFOEs as the directors and/or senior management of the PRC Holdcos;
- without the written consent of the WFOEs, they shall not engage in any business in competition with the WFOEs or its affiliates; and
- unless otherwise mandatorily required by PRC laws, the PRC Holdcos shall not be dissolved or liquidated without prior written consent by the WFOEs.

In addition, Litong, among other things, has covenanted that:

- without the written consent of the WFOEs, it shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the PRC Holdcos, or allow the encumbrance thereon of any security interest, except for the New Equity Pledge Agreements and the interests prescribed in the New Powers of Attorney, and procure the shareholder's meeting and the board of directors of the PRC Holdcos not to approve such matters;
- for each exercise of the equity purchase option, to cause the shareholder's meeting of the PRC Holdcos to vote on the approval of the transfer of equity interests and any other action requested by the WFOEs;
- it shall relinquish the pre-emptive right (if any) it is entitled to in relation to the transfer of equity interest by any shareholder to the PRC Holdcos and give consent to the execution by each other shareholder of the PRC Holdcos with the WFOEs and the PRC Holdcos exclusive option agreements, equity interest pledge agreements and powers of attorney similar to the New Exclusive Option Agreements, the New Equity Pledge Agreements and the New Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders; and
- it will transfer to the WFOEs or its appointee(s) by way of gift any profit or dividend in accordance with the PRC law.

Litong has also undertaken that, subject to the relevant laws and regulations, it will return to the WFOEs any consideration it receives in the event that the WFOEs exercise the options under the New Exclusive Option Agreements to acquire the equity interests in the PRC Holdcos.

The New Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by Litong in the PRC Holdcos have been transferred to the WFOEs or their appointee(s).

New Equity Pledge Agreements

Under the new equity pledge agreements dated March 22, 2022 entered into between the WFOEs, Litong and the PRC Holdcos (the “**New Equity Pledge Agreements**”), Litong agreed to pledge all its respective equity interests in the PRC Holdcos that it owns, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of the PRC Holdcos takes effect upon the completion of registration with the relevant local branch of the State Administration for Market Regulation and shall remain valid until after all the contractual obligations of Litong and the PRC Holdcos under the relevant New Contractual Arrangements have been fully performed and all the outstanding debts of Litong and the PRC Holdcos under the relevant New Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the New Equity Pledge Agreements), the WFOEs shall have the right to require the PRC Holdcos’ shareholder (i.e. Litong) to immediately pay any amount payable by the PRC Holdcos under the New Exclusive Business Cooperation Agreement, repay any loans and pay any other due payments, and the WFOEs shall have the right to exercise all such rights as a secured party under any applicable PRC law and the New Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to Litong.

The registration of the New Equity Pledge Agreements as required by the relevant laws and regulations will be completed in accordance with the terms of the New Equity Pledge Agreements and PRC laws and regulations as soon as practicable after entering into the New Contractual Arrangements.

New Powers of Attorney

Litong has executed new powers of attorney dated March 22, 2022 (the “**New Powers of Attorney**”). Under the New Powers of Attorney, Litong irrevocably appointed the WFOEs and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact’s prior written consent, any and all right that it has in respect of its equity interests in the PRC Holdcos, including without limitation:

- to attend shareholders’ meetings of the PRC Holdcos and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;
- to file documents with the relevant companies’ registry;
- to exercise all shareholder’s rights and shareholder’s voting rights in accordance with law and the constitutional documents of the PRC Holdcos, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the PRC Holdcos; and
- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the PRC Holdcos.

Litong has undertaken that it will not directly or indirectly participate in, engage in, involve in, or own any business which potentially compete with the relevant WFOE or its affiliates.

Further, the New Powers of Attorney shall remain effective for so long as each shareholder holds equity interest in the PRC Holdcos.

Confirmations from the Relevant Individual Shareholders and Spouse Undertakings

As advised by the PRC legal Advisor, as Yuebao ceased to be the registered shareholder of the PRC Holdcos, the subject matter/content in the (i) confirmation from each of the relevant individual shareholders, being the registered individual shareholders of Yuebao, and (ii) the spouse undertaking from the spouse of each of registered individual shareholders of Yuebao, have become void pursuant to the PRC laws and regulations. Therefore, confirmations from the relevant individual shareholders and spouse undertakings from the respective spouses of the relevant individual shareholders of the Registered Shareholders remain unchanged.

The PRC Legal Advisor is of the view that (i) the above arrangements provide protection to the Group even in the event of death or divorce of any ultimate individual shareholder(s) of the PRC Holdcos and (ii) the death or divorce of such shareholder(s) would not affect the validity of the New Contractual Arrangements, and the WFOEs or the Company can still enforce their rights under the New Contractual Arrangements against Litong.

Dispute Resolution

Each of the agreements under the New Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the New Contractual Arrangements, any party has the right to submit the relevant dispute to the Shanghai International Arbitration Center (“**SHIAC**”) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of the PRC Holdcos or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of the PRC Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company), the PRC and the places where the principal assets of the WFOEs or the PRC Holdcos are located for interim remedies or injunctive relief.

However, the PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that the PRC Holdcos or Litong breach any of the New Contractual Arrangements, the Company may not be able to obtain sufficient remedies in a timely manner, and the Company’s ability to exert effective control over the Consolidated Affiliated Entities and conduct the Group’s business could be materially and adversely affected. See the section headed “Risks and Limitations Relating to the New Contractual Arrangements” in this announcement for further details.

Conflict of Interest

Litong has given its irrevocable undertakings in the New Powers of Attorney which address potential conflicts of interests that may arise in connection with the New Contractual Arrangements. For further details, see the sub-paragraph headed “— New Powers of Attorney” above.

Loss Sharing

Under the relevant PRC laws and regulations, none of the Company and the WFOEs is legally required to share the losses of, or provide financial support to, the Consolidated Affiliated Entities. Further, the Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOEs intend to continuously provide to or assist the Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that the Group conducts a substantial portion of its business operations in the PRC through the Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into the Group’s financial statements under the applicable accounting principles, the Company’s business, financial position and results of operations would be adversely affected if the Consolidated Affiliated Entities suffer losses.

However, as provided in the New Exclusive Option Agreements, without the prior written consent of the WFOEs, the PRC Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than US\$5,000,000; (ii) execute any material contract with a value above US\$5,000,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOEs and the Company in the event of any loss suffered from the PRC Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the New Exclusive Option Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholder of the Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to the WFOEs or its designee(s) to the extent permitted by the PRC laws.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the New Contractual Arrangements.

LEGALITY OF THE NEW CONTRACTUAL ARRANGEMENTS

Based on the above, the PRC Legal Advisor is of the opinion that the New Contractual Arrangements are narrowly tailored to minimize potential conflict with relevant PRC laws and regulations and that:

- (i) the use of the New Contractual Arrangements does not constitute a breach of applicable laws and regulations of the PRC in any material respect;
- (ii) the New Contractual Arrangements do not contravene the current articles of association of the PRC Holdcos;
- (iii) each of the New Contractual Agreements is binding on the parties thereto and none of them would be void under the Civil Code of the PRC ;
- (iv) except for the clauses providing that (a) an arbitral body may award injunctive relief or winding up orders and that courts in Hong Kong and the Cayman Islands may grant interim remedies may not be enforceable under PRC laws; (b) the equity interest pledge contemplated under the New Contractual Arrangements will not become effective until registration with competent governmental authorities; and (c) the shareholder of the PRC Holdcos undertakes to appoint a committee designated by the WFOEs as the liquidation committee upon the winding up of the PRC Holdcos to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC laws (collectively, the “**Exceptions**”), the New Contractual Arrangements are enforceable under the laws of the PRC; and
- (v) notwithstanding paragraph (iv) above, as such Exceptions will not affect the effectiveness of the agreements under the New Contractual Arrangements conferring significant control and economic benefits from the PRC Holdcos to the Company, each of the agreements under the New Contractual Arrangements will become effective, valid, legally binding on the parties thereto, and enforceable under the PRC laws and regulations once it has been duly executed.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》, the “**Foreign Investment Law**”), which took effect on January 1, 2020, replaced the Sino-foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law of the PRC (《中華人民共和國外商投資企業法》) and became the legal foundation for foreign investment in the PRC.

Conducting operations through contractual arrangements has been and will be further adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law does not explicitly stipulate contractual arrangements as a form of foreign investment. As advised by the PRC Legal Advisor, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, the New Contractual Arrangements as a whole and each of the agreements comprising the New Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether the New Contractual Arrangements will be recognized as foreign investment, whether the New Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the New Contractual Arrangements will be handled are uncertain.

If the operation of the Prohibited Businesses is no longer in the Negative List and the Group can legally operate the Prohibited Businesses under the PRC laws, the WFOEs will exercise the options under the New Exclusive Option Agreement to acquire the equity interest in the PRC Holdcos and unwind the New Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of the Prohibited Businesses is in the Negative List, the New Contractual Arrangements may be viewed as restricted and/or prohibited foreign investment. Although New Contractual Arrangements are not specified as foreign investment under the Foreign Investment Law, the New Contractual Arrangements may be regarded as invalid and illegal if the future laws, administrative regulations or provisions prescribed by the State Council define New Contractual Arrangements as a form of foreign investment and the operation of the Prohibited Businesses is still in the Negative List. As a result, the Group would not be able to operate the PRC Holdcos through the New Contractual Arrangements and the group would lose the Company's rights to receive the economic benefits of the PRC Holdcos. As a result, the financial results of the PRC Holdcos would no longer be consolidated into the Group's financial results and the group would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad and contractual arrangements are not specified as foreign investment under the Foreign Investment Law, the Directors are of the view that it is unlikely that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

DIRECTORS' VIEWS ON THE NEW CONTRACTUAL ARRANGEMENTS

Based on the above, the Directors are of the view that the New Contractual Arrangements conferring significant control and economic benefits from the PRC Holdcos are enforceable under the PRC laws and regulations. The Directors are also of the view that, as the New Contractual Arrangements shall have substantially the same terms and conditions as those of the Existing Contractual Arrangements and shall be entered into among the same parties of the Existing Contractual Arrangements except Yuebao (including its individual shareholders and their respective spouses), the New Contractual Arrangements are a reproduction of the Existing Contractual Arrangements.

The Directors believe that the New Contractual Arrangements are narrowly tailored because the New Contractual Arrangements are only used to enable the Group to conduct businesses in industries that are subject to foreign investment restrictions and prohibitions in the PRC, and minimise the potential conflict with relevant PRC laws and regulations.

The Directors (including the independent non-executive Directors) are of the view that (i) the termination of the Existing Contractual Arrangements and the entering into of the New Contractual Arrangements are fundamental to the Group's legal structure and business operations, and (ii) the transactions contemplated under the Restructuring have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors believe that the Contractual Arrangements are fair and reasonable because the New Contractual Arrangements were reproduced from the Existing Contractual Arrangements.

Mr. James Gordon Mitchell, Mr. Cheng Yun Ming Matthew, Mr. Cheng Wu, Mr. Hou Xiaonan and Mr. Zou Zhengyu, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolutions approving each of (i) the termination of the Existing Contractual Arrangements, and (ii) the New Contractual Arrangements.

CONSOLIDATED FINANCIAL RESULTS OF THE CONSOLIDATED AFFILIATED ENTITIES

Under the New Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOEs, each of the PRC Holdcos will pay services fees to the WFOEs. The services fees, subject to the WFOEs' adjustment, are equal to the entirety of the total consolidated profit of the PRC Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). The WFOEs may adjust the services scopes and fees at their respective discretion in accordance with PRC tax law and practice as well as the needs of the working capital of the Consolidated Affiliated Entities. The WFOEs also have the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities. Accordingly, the WFOEs have the ability, at their respective sole discretion, to extract all of the economic benefit of the PRC Holdcos through the New Exclusive Business Cooperation Agreements.

In addition, under the New Exclusive Business Cooperation Agreements and the New Exclusive Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holder of the Consolidated Affiliated Entities as WFOEs' prior written consent is required before any distribution can be made. In the event that Litong receives any profit distribution or dividend from the Consolidated Affiliated Entities, Litong must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

As a result of the New Contractual Arrangements, the Company has obtained control of the Consolidated Affiliated Entities through the WFOEs and, at the Company's sole discretion, can receive all of the economic interest returns generated by the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into the Company's financial statements.

In this regard, the Directors consider that the Company can consolidate the financial results of the Consolidated Affiliated Entities into the Group's financial information as if they were the Company's subsidiaries.

COMPLIANCE WITH THE NEW CONTRACTUAL ARRANGEMENTS

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the New Contractual Arrangements and the Group's compliance with the New Contractual Arrangements:

- i. major issues arising from the implementation and compliance with the New Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- ii. the Board will review the overall performance of and compliance with the New Contractual Arrangements at least once a year;
- iii. the Company will disclose the overall performance and compliance with the New Contractual Arrangements in the annual reports of the Company; and
- iv. the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the New Contractual Arrangements, review the legal compliance of the WFOEs and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the New Contractual Arrangements.

RISKS AND LIMITATIONS RELATING TO THE NEW CONTRACTUAL ARRANGEMENTS

(i) Loss sharing and economic risks of the Company

Under PRC laws and regulations, the Company or the WFOEs, are not expressly required to share the losses of the Consolidated Affiliated Entities or provide financial support to the Consolidated Affiliated Entities. None of the agreements constituting the New Contractual Arrangements provide that the Company or the WFOEs, are obligated to share the losses of the Consolidated Affiliated Entities or provide financial support to the Consolidated Affiliated Entities. Further, the Consolidated Affiliated Entities shall be solely liable for their own debts and losses with assets and properties owned by it.

Despite the foregoing, given that the Consolidated Affiliated Entities' financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffer losses. However, due to the restrictive provisions contained in the New Contractual Arrangements as disclosed in this announcement, the potential adverse effect on the WFOEs and the Company in the event of any loss suffered from the Consolidated Affiliated Entities can be limited to a certain extent.

(ii) The PRC government may find that the New Contractual Arrangements do not comply with applicable PRC laws and regulations

If the PRC government finds that the contractual arrangements of the Group do not comply with its restrictions and/or prohibitions on foreign investment in businesses, or if the PRC government otherwise finds that the Company, Shanghai Hongwen, Shanghai Yuewen or any of their respective subsidiaries are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate the business of the Group, the relevant PRC regulatory authorities, including the SAMR, MOFCOM, MIIT, MOCT and NRTA, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking the Group's business and operating licenses;
- discontinuing or restricting the Group's operations;
- imposing fines or confiscating any of the Group's income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which the Company or the Group's PRC subsidiaries and Consolidated Affiliated Entities may not be able to comply;
- requiring the Group or the Group's PRC subsidiaries and Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting the Group's use of the proceeds from the initial public offering or other of the Group's financing activities to finance the business and operations of the Consolidated Affiliated Entities and their respective subsidiaries; or
- taking other regulatory or enforcement actions that could be harmful to the Group's business.

Any of these actions could cause significant disruption to the Group's business operations, and may materially and adversely affect the Group's business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on the Group and on the Group's ability to consolidate the financial results of any of the Consolidated Affiliated Entities in the Group's consolidated financial statements, if the PRC governmental authorities find the Group's legal structure and contractual arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties results in the Group's inability to direct the activities of Shanghai Hongwen or Shanghai Yuewen that most significantly impact their economic performance and/or the Group's failure to receive the economic benefits from Shanghai Hongwen or Shanghai Yuewen, the Company may not be able to consolidate Shanghai Hongwen or Shanghai Yuewen into the Group's consolidated financial statements in accordance with IFRS.

(iii) The New Contractual Arrangements may not be as effective in providing control over the PRC Holdcos as direct ownership

Due to the PRC restrictions or prohibitions on foreign ownership of the Relevant Business in China, the Company operates a portion of the Group's business in China through the Consolidated Affiliated Entities, in which the Company has no ownership interest. The Company relies on a series of contractual arrangements with the Consolidated Affiliated Entities and their shareholder to control and operate their business. These contractual arrangements are intended to provide the Group with effective control over the Consolidated Affiliated Entities and allow the Group to obtain economic benefits from them.

Although the Company has been advised by the PRC Legal Advisor, that the Group's contractual arrangements with Shanghai Hongwen and Shanghai Yuewen constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these contractual arrangements may not be as effective in providing control over Shanghai Hongwen and Shanghai Yuewen as direct ownership. If the PRC Holdcos or their shareholder(s) fail to perform their respective obligations under the contractual arrangements, the Company may incur substantial costs and expend substantial resources to enforce the Group's rights. All of these contractual arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these contractual arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remains significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit the Group's ability to enforce these contractual arrangements. In the event the Company is unable to enforce these contractual arrangements or the Company experiences significant delays or other obstacles in the process of enforcing these contractual arrangements, the Company may not be able to exert effective control over the Company's affiliated entities and may lose control over the assets owned by the Consolidated Affiliated Entities. As a result, the Company may be unable to consolidate Shanghai Hongwen and Shanghai Yuewen in the Group's consolidated financial statements, and the Group's ability to conduct the Group's business may be negatively affected.

(iv) Litong may have potential conflicts of interest with the Company

Litong may have potential conflicts of interest with the Company. Although there are provisions under the New Contractual Arrangements to prevent those situations, conflicts of interest may still arise when the interests of Litong do not align with that of the Company. If the Company fails to resolve this internally, it may have to resort to dispute resolution.

(v) Limitation of the usage of the assets held by the PRC Holdcos during their bankruptcy, dissolution or liquidation proceeding

The Company does not have priority pledges and liens against the assets of the Consolidated Affiliated Entities. If Shanghai Hongwen or Shanghai Yuewen undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and the Company may not have priority against such third-party creditors on the assets of the Consolidated Affiliated Entities. If the Consolidated Affiliated Entities liquidate, the Company may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by Shanghai Hongwen to Shanghai Yueting or by Shanghai Yuewen to Shanghai Yuechao under the applicable service agreement.

If the shareholder of the PRC Holdcos was to attempt to voluntarily liquidate the Consolidated Affiliated Entities without obtaining the Company's prior consent, the Company could effectively prevent such unauthorized voluntary liquidation by exercising the Company's right to request the shareholders of the Consolidated Affiliated Entities to transfer all of their respective equity ownership interests to a PRC entity or individual designated by the Company in accordance with the option agreement with the shareholders of the Consolidated Affiliated Entities. In addition, under the VIE agreements signed by Shanghai Yueting, Shanghai Hongwen and their shareholder, the shareholder of Shanghai Hongwen does not have the right to issue dividends to itself or otherwise distribute the retained earnings or other assets of Shanghai Hongwen without the Company's consent. Similarly, the shareholder of Shanghai Yuewen does not have the right to issue dividends to itself or otherwise distribute the retained earnings or other assets of Shanghai Yuewen without the Company's consent. In the event that the shareholder of the PRC Holdcos initiates a voluntary liquidation proceeding without the Company's authorization or attempts to distribute the retained earnings or assets of the PRC Holdcos without the Company's prior consent, the Company may need to resort to legal proceedings to enforce the terms of the contractual arrangements. Any such legal proceeding may be costly and may divert the Company's management's time and attention away from the operation of the Group's business, and the outcome of such legal proceeding will be uncertain.

(vi) Limitations in Exercising the Option to Acquire Ownership in the PRC Holdcos

Pursuant to the New Contractual Arrangements, Shanghai Yueting or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Shanghai Hongwen from its shareholder at the maximum amount of RMB21.5 million, which is equal to the loan granted by Shanghai Yueting to Litong. Similarly, Shanghai Yuechao or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Shanghai Yuewen from its shareholder at the maximum amount of RMB27.6 million, which is equal to the loan granted by Shanghai Yuechao to Litong. The equity transfer may be subject to the approvals from and filings with the MOFCOM, the MIIT, the MOCT, the SAMR, the NRTA and/or their local competent branches. In addition, the equity transfer

price may be subject to review and tax adjustment by the relevant tax authority. The shareholder of the PRC Holdcos will pay the equity transfer price it receives to Shanghai Yueting and Shanghai Yuechao under the New Contractual Arrangements. The amount to be received by Shanghai Yueting and Shanghai Yuechao may also be subject to enterprise income tax. Such tax amounts could be substantial.

(vii) The New Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Company could face material and adverse tax consequences if the PRC tax authorities determine that the New Contractual Arrangements among the Group's PRC subsidiaries and the Consolidated Affiliated Entities do not represent an arms-length price and adjust the Consolidated Affiliated Entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the Consolidated Affiliated Entities, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to the Group's PRC variable interest entities for under-paid taxes. The Group's results of operations may be materially and adversely affected if the Group's tax liabilities increase or if the Company is found to be subject to late payment fees or other penalties.

(viii) The Company does not have any insurance which covers the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder.

The insurance of the Group does not cover the risks relating to the New Contractual Arrangements and the transactions contemplated thereunder, and the Group has no intention to purchase any new insurance in this regard. If any risk arises from the New Contractual Arrangements in the future, such as those affecting the enforceability of the New Contractual Arrangements and the relevant agreements for the transactions contemplated thereunder and the operation of the Group, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, there are relevant internal control measures to reduce the operational risk.

LISTING RULES IMPLICATIONS

At the time of the Listing, the Stock Exchange has granted the VIE Waiver in connection with the continuing connected transactions of the Group in the form of the Existing Contractual Arrangements, subject to certain conditions as set out therein. As disclosed in the Prospectus, the Existing Contractual Arrangements may be renewed and/or reproduced without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Existing Contractual Arrangements. Since the New Contractual Arrangements are a reproduction of the Existing Contractual Arrangements as provided under the conditions of the VIE Waiver, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Contractual Arrangements would continue to fall within the scope of the VIE Waiver and are exempt from (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the New Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the New Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the New Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange, subject to compliance with the same conditions of the VIE Waiver.

INFORMATION ABOUT THE PARTIES TO THE NEW CONTRACTUAL ARRANGEMENTS

The Group is principally engaged in online literature and IP incubation businesses, and is a pioneer of China's online literature market.

Each WFOEs, namely Shanghai Yueting and Shanghai Yuechao, is a limited liability company established in the PRC and wholly owned by the Company. Shanghai Yueting is principally engaged in the development of hardware and software. Shanghai Yuechao is principally engaged in the development of hardware and software.

Each PRC Holdcos, namely Shanghai Yuewen and Shanghai Hongwen, is a limited liability company established in the PRC and one of the Consolidated Affiliated Entities. Shanghai Yuewen is principally engaged in Internet publication in the PRC. Shanghai Hongwen is principally engaged in Internet publication in the PRC.

Tencent and its subsidiaries are principally engaged in communication, social, digital content, games, advertising, fintech and cloud services in the PRC. Litong is principally engaged in investment holding.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Civil Code of the PRC”	the Civil Code of the PRC (《中華人民共和國民法典》) issued by National People’s Congress on May 28, 2020, and became effective on January 1, 2021, and replaced Contract Law of the PRC, (《中華人民共和國合同法》), the General Principles of the Civil Law of the PRC (《中華人民共和國民法總則》), and some other laws
“Company”	China Literature Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board (stock code: 772)
“Consolidated Affiliated Entities”	the entities the Company controls through the New Contractual Arrangements, namely the PRC Holdcos and their respective subsidiaries
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Departed Senior Management”	Mr. Wu Wenhui (吳文輝), Mr. Shang Xuesong (商學松), Mr. Lin Tingfeng (林庭鋒), Mr. Hou Qingchen (侯慶辰) and Mr. Luo Li (羅立), holding the equity interest in Yuebao as to 83.88%, 5.37%, 5.37%, 2.69% and 2.69%, respectively, before the completion of the share transfers under the Equity Transfer Agreements
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreements”	the equity transfer agreements dated March 22, 2022 entered into between Yuebao and Litong, in relation to, among other things, Yuebao agreed to transfer to Litong 34.62% of the equity interests in each of the PRC Holdcos respectively and upon the completion of such transfers, the PRC Holdcos will be held by Litong as to 100%

“Existing Contractual Arrangements”	the series of contractual arrangements entered into by, among others, the WFOEs and the PRC Holdcos, as described in the Prospectus
“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
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing”	the listing of the Shares on the Main Board
“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
“Litong”	Shenzhen Litong Industry Investment Fund Company Limited (深圳市利通產業投資基金有限公司), a company established in the PRC on August 5, 2013, which is the shareholder of each of the PRC Holdcos and a subsidiary of Tencent
“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
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOCT”	Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Negative List”	Special Administrative Measures (Negative List) for Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施 (負面清單)》(2021年版)), which became effective on January 1, 2022

“New Contractual Arrangements”	the series of contractual arrangements entered into by, among others, the WFOEs and the PRC Holdcos, details of which are described in the section headed “Major Terms of the New Contractual Arrangements” in this announcement
“NRTA”	National Radio and Television Administration (國家廣播電視總局)
“PRC” or “China”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, Macau, and Taiwan
“PRC Holdcos”	Shanghai Yuewen and Shanghai Hongwen, collectively
“PRC Legal Advisor”	Han Kun Law Offices, the legal advisor of the Company as to the laws of the PRC
“Prospectus”	the prospectus of the Company dated October 26, 2017
“Registered Shareholders”	Litong and Yuebao
“Retained Tencent Group”	Tencent and its subsidiaries, excluding the Group
“Restructuring”	the Transfers, the termination of the Existing Contractual Arrangements and the entering into of the New Contractual Arrangements
“RMB”	Renminbi, the lawful currency of the PRC
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“Shanghai Hongwen”	Shanghai Hongwen Networking Technology Co., Ltd. (上海宏文網絡科技有限公司) a company established in the PRC on October 22, 2008 and controlled by the Company through the Existing Contractual Arrangements, and one of the PRC Holdcos
“Shanghai Yuechao”	Shanghai Yuechao Network Technology Co., Ltd. (上海閱潮網絡科技有限公司), a company established in the PRC on February 26, 2013, and the indirectly wholly-owned subsidiary of the Company

“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. (盛霆信息技術(上海)有限公司), a company established in the PRC on May 27, 2008, and the indirectly wholly owned subsidiary of the Company
“Shanghai Yuewen”	Shanghai Yuewen Information Technology Co., Ltd. (上海閱文信息技術有限公司) a company established in the PRC on April 2, 2014 and controlled by the Company through the Existing Contractual Arrangements, and one of the PRC Holdcos
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the 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 organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700), and the controlling Shareholder
“Transfers”	the transfers by Yuebao to Litong of 34.62% of equity interests in each of the PRC Holdcos, and upon the completion of such transfers, the PRC Holdcos will be held by Litong as to 100%
“US\$”	the United States dollars, the lawfully currency of the United States
“VIE Waiver”	the waiver granted by the Stock Exchange to the Company from strict compliance (i) the announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the New Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the New Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the New Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange and subject to certain conditions, details of which are set out in the section headed “Connected Transactions” of the Prospectus

“WFOEs”	Shanghai Yuechao and Shanghai Yueting, collectively
“Yuebao”	Ningbo Meishan Bonded Port Area Yuebao Investment Co., Ltd. (寧波梅山保稅港區閱寶投資有限公司), a company established in the PRC on April 25, 2017
“%”	percent

**Note: For ease of reference, the names of the PRC established companies or entities have been included in this announcement in both 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 22, 2022

As at the date of this announcement, the board of directors of the Company comprises Mr. Cheng Wu and Mr. Hou Xiaonan as executive Directors; Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.