

China Literature to Acquire New Classics Media

Hong Kong, August 13, 2018 – China Literature Limited (“China Literature” or “the Company”, stock code: 0772.HK), a leading online literature platform in China, today announced that it has entered into a definitive agreement with the senior management team of New Classics Media (“NCM”) and Tencent Holdings Limited (“Tencent”, stock code: 0700.HK) pursuant to which China Literature will acquire 100% of the share capital of NCM from certain members of NCM’s senior management team and Tencent in a transaction valuing NCM at RMB15.5 billion.

NCM is a renowned TV series, web series and film producer in China with a track record of creating blockbuster content including TV and web series titles such as *The First Half of My Life* (我的前半生) and *Yu Zui* (余罪), as well as films such as *Wukong* (悟空传) and *Some Like It Hot* (情圣). This transaction combines China Literature’s unparalleled content library and NCM’s industry leading expertise in script development and production, and will help unlock the full potential value of China Literature’s high-quality original literary content offerings.

Mr Wenhui Wu, Co-Chief Executive Officer of China Literature, stated, “Users are increasingly demanding high quality video entertainment content which in turn drives the demand for literary works for various content adaptations. We are the pioneer and leader in online literature market and thus in providing source material for China’s most-watched TV series, web series and films. Further enhancing our content adaptation expertise is a natural next step for China Literature to unleash the commercial potential of our content library, drive integrated development of blockbuster titles, and enhance engagement of our writers and users.”

Mr. Xiaodong Liang, Co-Chief Executive Officer of China Literature, stated, “Mr Huayi Cao and the NCM team have built up an outstanding track record of consistently producing popular, high quality TV series, web series and films. NCM represents a scarce opportunity for China Literature to extend its content capabilities downstream, enabling it to participate further along the IP value chain and enhance the services it can bring to its writers as well as its users. We believe that this combination will create significant long term strategic value for China Literature’s shareholders.”

Mr Huayi Cao, Founder of NCM, stated: “Today represents a new milestone on the NCM journey. From the beginning, we have focused on ensuring that NCM is the benchmark for Chinese TV series and film production in terms of quality. This process starts with the high quality source material, and China Literature is the original content powerhouse for many of our best productions. China Literature will provide us with access to the richest literature content library in China and enhance our credibility as a leading production house for TV series, web series and film. I can think of no better home for NCM as we work in partnership towards creating better content for our audience. ”

The current management of NCM will continue to oversee the TV series, web series and film production business and will be empowered to make original content selection choices, including those from outside of China Literature’s platform. The Company believes such arrangement will incentivize NCM’s management

team and facilitate future business performance, while enabling NCM to access China Literature's content library, writer's platform and editorial expertise.

China Literature will fund the transaction with RMB5.1 billion in cash and RMB10.4 billion in stock, including an earn-out mechanism to align the long term performance and incentives of NCM's management team. The China Literature shares that will be used as stock consideration will be issued at HK\$80 per share. At closing, management of NCM will receive approximately 40% of their consideration (RMB1.5 billion in cash and RMB2.6 billion in stock) with the balance being deferred and subject to future performance earn-out.

The transaction, which is currently expected to close during the second half of 2018, is subject to customary closing conditions and constitutes a Major and Connected Transaction under Hong Kong Listing Rules, which will require shareholder approval by the majority of independent shareholders of China Literature.

BofA Merrill Lynch served as financial advisor to China Literature.

About China Literature

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

About New Classics Media

New Classics Media was founded by Mr. Huayi Cao in 2007 and has gone on to garner a track record in producing a number of premium TV series, web series and films, covering a broad array of genres. With its quality-focused strategy, NCM has achieved demonstrable success and received numerous accolades. Its key TV and web series productions include *The First Half of My Life* (我的前半生), *White Deer Plain* (白鹿原), *The Kite* (风筝), *The Imperial Doctress* (女医明妃传) and *Yu Zui* (余罪). NCM also led or participated in the production of blockbuster films, including *Wukong* (悟空传), *Some Like It Hot* (情圣), *Never Say Die* (羞羞的铁拳) and *Goodbye Mr. Loser* (夏洛特烦恼), as well as the recent mega-hit *Hello Mr. Billionaire* (西虹市首富). In addition, NCM has built up strong cooperation relationships with a highly talented and acclaimed roster of scriptwriters, directors and producers.

Contact

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Forward-Looking Statements and Additional Information

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

Additional information regarding this transaction is included in our public disclosure documents which can be found on our corporate website and on the Hong Kong Stock Exchange website.