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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

CONTINUING CONNECTED TRANSACTION 2022 COPYRIGHT LICENSE AGREEMENT

On May 23, 2022, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2020 Copyright License Agreement and revise the annual cap for the year ending December 31, 2022 thereunder by entering into the 2022 Copyright License Agreement. The 2020 Copyright License Agreement has been terminated upon the 2022 Copyright License Agreement taking effect.

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 the 2022 Copyright License 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 the 2022 Copyright License Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that, on May 23, 2022, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2020 Copyright License Agreement and revise the annual cap for the year ending December 31, 2022 thereunder by entering into the 2022 Copyright License Agreement. The 2020 Copyright License Agreement has been terminated upon the 2022 Copyright License Agreement taking effect.

CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated August 11, 2020 in relation to, among others, the 2020 Copyright License Agreement which shall expire on December 31, 2022.

As the Group intends to continue carrying out the transactions under the 2020 Copyright License Agreement in the ordinary and usual course of business of the Group and amend the annual cap for the year ending December 31, 2022 thereunder, on May 23, 2022, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2020 Copyright License Agreement and revise the annual cap for the year ending December 31, 2022 thereunder by entering into the 2022 Copyright License Agreement.

As the scope of the 2020 Copyright License Agreement has been covered by the cooperation under the 2022 Copyright License Agreement, the 2020 Copyright License Agreement has been terminated upon the 2022 Copyright License Agreement taking effect.

Principal terms of the 2022 Copyright License Agreement are set out as follows:

Date: May 23, 2022

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

Terms: From May 23, 2022 to December 31, 2024

Subject matter: The Retained Tencent Group shall license the copyrights to the Group including but not limited to:

- (i) the adaptation rights and other adaptation-related rights of various works (including but not limited to games, literary works and comics) and the Group shall have the right to adapt such works to comics, animation, films and television series, games, audio works, stage plays and other products;
- (ii) (a) the information network transmission rights, (b) the projection rights, (c) the broadcast rights, (d) the translation rights, and (e) other rights related to the aforementioned rights, of various works (including but not limited to literary works, audio works, comics, animation, and films and television series); and

- (iii) the license of (a) the elements (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) of literary works, audio works, films and television series, games, comics, animation and other works of which the Retained Tencent Group has legal rights, and (b) certain trademarks, copyrights and other rights related to the aforementioned rights.

For the avoidance of doubt, the license of copyrights contemplated under the 2022 Copyright License Agreement shall exclude any transaction which involves the formation of a joint venture entity in any form of joint arrangement (whether as a partnership, a company or in any other form) for the purpose of the adaptation, transmission or usage of the Retained Tencent Group's works or elements thereof.

Fee arrangements: In return for the licensing of the copyrights, the Group shall pay licensing fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties:

- (1) fixed fee,
- (2) revenue/profit sharing, or
- (3) a mix of the above fee arrangements.

Payment and settlement terms: The scope of the copyrights cooperation and payment and settlement terms of the implementation agreements shall be agreed separately between the relevant parties, which will be entered into under the 2022 Copyright License Agreement.

Pricing Policy

The licensing fees payable and/or the percentage of the revenue/profit to be shared by the Group to the Retained Tencent Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market price (e.g. price offered by Independent Third Parties or price determined on a cost-plus basis) and considering various relevant commercial factors, including the nature, popularity, quantity, quality and commercial potential of certain IPs of the Retained Tencent Group. The Group will only enter into an implementation agreement with the Retained Tencent Group when the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical aggregate amounts of the licensing fees paid by the Group to the Retained Tencent Group in connection with the copyrights cooperation for the three years ended December 31, 2021 and the three months ended March 31, 2022 are set out as follows:

For the year ended December 31, 2019 (RMB' 000)	For the year ended December 31, 2020 (RMB' 000)	For the year ended December 31, 2021 (RMB' 000)	For the three months ended March 31, 2022 (RMB' 000) (unaudited)
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The licensing fees paid by the
Group to the Retained
Tencent Group

6,354	5,010	79,918	39,645
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Annual Caps and Basis of Determination

The original annual cap for the licensing fees payable by the Group to the Retained Tencent Group under the 2020 Copyright License Agreement for the year ending December 31, 2022 is RMB90,000,000. The revised annual cap for the year ending December 31, 2022 and the annual caps for the two years ending December 31, 2024 are set out as follows:

For the year ended December 31,		
2022	2023	2024
(RMB' 000)	(RMB' 000)	(RMB' 000)

Aggregate amounts of licensing fees payable by
the Group to the Retained Tencent Group

204,000	217,000	233,000
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The above annual caps for the three years ending December 31, 2024 were determined with reference to (i) the annual increase of licensing fees paid by the Group to the Retained Tencent Group for the year ended December 31, 2021 and the annual cap utilized during the three months ended March 31, 2022, representing approximately 44.05% of the original annual cap for the year ending December 31, 2022, (ii) with respect to the comics, (a) the potential cooperation in 10 to 20 popular comics for the year ending December 31, 2022 based on the current negotiations between the Group and the Retained Tencent Group, with the estimated licensing fee ranging from RMB5 million to RMB20 million per comic, depending on the nature, popularity and commercial potential of comics, and (b) the annual growth of cooperation in 30 to 80 comics for the two years ending December 31, 2024, (iii) the estimated scale of potential licensing copyrights (including but not limited to the adaptation rights, the information network transmission rights, the projection rights, the broadcast rights and the translation rights) of various works (including but not limited to

games, literary works, comics, audio works, animation, and films and television series) that the Retained Tencent Group intends to license to the Group for the three years ending December 31, 2024, (iv) the estimated annual growth of the copyrights cooperation in various works for the three years ending December 31, 2024 taking into account the intention of the Group to further develop its copyrights, and (v) the average market price for licensing copyrights of various works.

Reasons and Benefits for Entering into the 2022 Copyright License Agreement

Given that the Retained Tencent Group is a leading provider of internet value-added services in the PRC, Tencent owns numerous popular IP concepts and intends to monetize the concepts. Through the cooperation on copyrights, it is expected that the Group could leverage on the abundant pan-entertainment contents and IP concepts of the Retained Tencent Group to enhance the popularity of the Group's contents and fully unleash the monetization potential of the Group's IP. It is also expected that the distribution of the adaptation works will broaden the user base of the Group, thereby enhancing the popularity of the Group's platforms, products and services.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2022 Copyright License Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder (including the annual caps for the three years ending December 31, 2024) 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.

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 the 2022 Copyright License Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under the 2022 Copyright License Agreement.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature and IP incubation businesses, and is a pioneer of China's online literature market. Shanghai Yueting is an indirectly 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 services and marketing planning services.

Tencent and its subsidiaries are principally engaged in the provision of communication, social, digital content, games, online advertising, financial technology and cloud services in the PRC. Tencent Computer is a wholly-owned subsidiary of Tencent which is principally engaged in the provision of value-added services and Internet 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 the 2022 Copyright License 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 the 2022 Copyright License Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“2020 Copyright License Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 11, 2020 in relation to, among other things, the purchase of the adaptation rights and transmission rights of various works from the Retained Tencent Group
“2022 Copyright License Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on May 23, 2022 in relation to, among other things, the copyright licensing to the Group by the Retained Tencent Group

“Board”	the board of Directors
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the Main Board (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
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
“IP(s)”	intellectual property(ies)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“PRC” or “China”	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
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Yueting”	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司), a company established in the PRC on May 27, 2008 and an indirectly wholly-owned subsidiary of the Company

“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 organised 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 of the Company
“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
“%”	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, May 23, 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.