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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On August 10, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2021 Virtual Services Purchase Agreement, the 2021 Game Cooperation Agreement, the 2021 Joint Investment Agreement, the 2021 Media Production Consignment Agreement, the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement, by entering into (i) the 2024 Virtual Services Purchase Agreement in relation to, among other things, the purchase of virtual services by the Retained Tencent Group from the Group, (ii) the 2024 Game Cooperation Agreement, in relation to, among other things, the joint operation and promotion of the games by the Retained Tencent Group or/and the Group, (iii) the 2024 Joint Investment Agreement in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products, (iv) the 2024 Media Production Consignment Agreement in relation to, among other things, the production and distribution of the live-action films and television series and animations for the Retained Tencent Group, and (v) the 2024 IP Cooperation Framework Agreement in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to literary works, audio works, comics, films, television series and animations) and/or licensing of the elements of these works.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, (iv) the 2024 Media Production Consignment Agreement, and (v) the 2024 IP Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, and (iv) the 2024 Media Production Consignment 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.

As the highest applicable percentage ratio in respect of the proposed annual caps for the 2024 IP Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under the 2024 IP Cooperation Framework Agreement, (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders, and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders will be dispatched to Shareholders. As the Company requires additional time to prepare and finalize certain information for inclusion in the circular, it will dispatch the circular to Shareholders on or before November 22, 2023.

INTRODUCTION

The Board is pleased to announce that, on August 10, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2021 Virtual Services Purchase Agreement, the 2021 Game Cooperation Agreement, the 2021 Joint Investment Agreement, the 2021 Media Production Consignment Agreement, the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement, by entering into (i) the 2024 Virtual Services Purchase Agreement in relation to, among other things, the purchase of virtual services by the Retained Tencent Group from the Group, (ii) the 2024 Game Cooperation Agreement, in relation to, among other things, the joint operation and promotion of the games by the Retained Tencent Group or/and the Group, (iii) the 2024 Joint Investment Agreement in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products, (iv) the 2024 Media Production Consignment Agreement in relation to, among other things, the production and distribution of the live-action films and television series and animations for the Retained Tencent Group, and (v) the 2024 IP Cooperation Framework Agreement in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to literary works, audio works, comics, films, television series and animations) and/or licensing of the elements of these works.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to (i) the announcement of the Company dated August 11, 2020 in relation to, among others, the entering into the 2021 Virtual Services Purchase Agreement, the 2021 Game Cooperation Agreement, the 2021 Joint Investment Agreement, the 2021 Media Production Consignment Agreement and the 2021 Distribution Framework Agreement, and (ii) the announcement of the Company dated August 16, 2021 in relation to, among other things, the entering into the 2021 IP Cooperation Framework Agreement and the revision of annual caps under the 2021 Game Cooperation Agreement and (iii) the circular of the Company dated November 5, 2021, in relation to, among other things, the 2021 IP Cooperation Framework Agreement. As disclosed in the announcements and circular of the Company mentioned above, the Existing Cooperation Agreements shall expire on December 31, 2023.

On August 10, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the Existing Cooperation Agreements, by entering into (i) 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, (iv) the 2024 Media Production Consignment Agreement and (v) the 2024 IP Cooperation Framework Agreement.

As the scope of the 2024 IP Cooperation Framework Agreement has covered the cooperation under the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement, the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement will be renewed by the entering into the 2024 IP Cooperation Framework Agreement after their respective expiration on December 31, 2023.

1. 2024 Virtual Services Purchase Agreement

Principal terms of the 2024 Virtual Services Purchase Agreement are set out as follows:

Date	:	August 10, 2023
Parties	:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	:	From January 1, 2024 to December 31, 2026
Subject matter	:	The Retained Tencent Group shall purchase virtual services of the Group (including but not limited to book coupons, monthly subscription cards and VIP cards).

- Fee arrangements** : In return for the virtual services, the Retained Tencent Group shall pay services fees to the Group.
- Payment and settlement terms** : The scope of the services and payment and settlement terms under the 2024 Virtual Services Purchase Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Virtual Services Purchase Agreement.

Pricing Policy

The services fees payable by the Retained Tencent Group to the Group in respect of the purchase of virtual services of the Group shall be determined after arm’s length negotiation between the parties with reference to the prevailing market prices and the quantity and extent of services of the Group to be purchased by the Retained Tencent Group. The Group will only enter into a service purchase 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 amounts of services fees paid by the Retained Tencent Group to the Group under the 2021 Virtual Services Purchase Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year ended December 31,		For the six months ended
	2021	2022	June 30, 2023
	<i>(RMB’000)</i>	<i>(RMB’000)</i>	<i>(RMB’000)</i> (unaudited)
Aggregate amounts of services fees paid by the Retained Tencent Group to the Group	805	7,897	3,285

Annual Caps and Basis of Determination

The annual caps for the services fees payable by the Retained Tencent Group to the Group under the 2024 Virtual Services Purchase Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of services fees payable by the Retained Tencent Group to the Group	10,000	11,000	12,500

The above annual caps for the three years ending December 31, 2026 were determined with reference to (i) the historical amounts of services fees paid by the Retained Tencent Group under the 2021 Virtual Services Purchase Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023, (ii) the potential growth of the procurement amount of virtual services for the three years ending December 31, 2026 as a result of the growth of the business and marketing requirements of the Retained Tencent Group and the increase of daily active users and paying users of the Group, and (iii) based on the current negotiations with the Retained Tencent Group, the plan to increase the offer of the virtual services of the Group on platforms of the Retained Tencent Group.

Reasons and Benefits for Entering into the 2024 Virtual Services Purchase Agreement

Leveraging Tencent's well established online social communication platforms and the vast user base, it is expected that the Retained Tencent Group's purchase of virtual services of the Group for purchase/redemption by their users on the Group's platforms for the Group's products and services will introduce more users to the Group's platforms and promote the popularity of its platforms, products and services.

2. 2024 Game Cooperation Agreement

Principal terms of the 2024 Game Cooperation Agreement are set out as follows:

Date	:	August 10, 2023
Parties	:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	:	From January 1, 2024 to December 31, 2026

- Subject matter** : The Retained Tencent Group shall cooperate with the Group on the following matters:
- (1) the Group shall license games, which are legally owned by or licensed to it, to the Retained Tencent Group for operations and promotion, and
 - (2) the Retained Tencent Group shall license games, which are legally owned by or licensed to it, to the Group for operations and promotion.
- Fee arrangements** : In return for the operation of the Group's or the Retained Tencent Group's games, the Retained Tencent Group or the Group shall pay 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 game cooperation and payment and settlement terms under the 2024 Game Cooperation Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Game Cooperation Agreement.

Pricing Policy

The distribution fees payable and/or revenue/profit to be shared by the Group to the Retained Tencent Group and the distribution fees payable and/or revenue/profit to be shared by the Retained Tencent Group to the Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market prices and considering various commercial factors, including the nature, popularity, quality and commercial potential of the relevant games. The Group will only enter into a cooperation 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 amounts of the distribution fees paid by the Group to the Retained Tencent Group and that by the Retained Tencent Group to the Group respectively under the 2021 Game Cooperation Agreement are set out as follows for the two years ended December 31, 2022 and the six months ended June 30, 2023:

	For the year ended December 31,		For the six months ended
	2021	2022	June 30,
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	2023
			<i>(RMB'000)</i>
			(unaudited)
The distribution fees paid by the Group to the Retained Tencent Group	58,067	16,503	6,043
The distribution fees paid by the Retained Tencent Group to the Group	149	nil	nil

Annual Caps and Basis of Determination

The annual caps for the distribution fees payable by the Group to the Retained Tencent Group and that by the Retained Tencent Group to the Group respectively under the 2024 Game Cooperation Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
The distribution fees payable by the Group to the Retained Tencent Group	50,000	70,000	73,000
The distribution fees payable by the Retained Tencent Group to the Group	200	200	200

The above annual caps for the three years ending December 31, 2026 were determined with reference to (i) the increase in the demand of the game cooperation, in particular (a) the potential one to two games in development to be launched in the year ending December 31, 2024 based on current negotiation, with the estimated distribution fees, depending on the nature, popularity and commercial potential of the games, and (b) the estimated annual growth of nil to one project for the two years ending December 31, 2026, (ii) the potential development in content of the games and new operation plans of the existing games, (iii) the estimated scale of games the Group intends to be operated by the Retained Tencent Group for the three years ending December 31, 2026, (iv) the estimated scale of games the Group intends to operate for the Retained Tencent Group for the three years ending December 31, 2026, and (v) the average cost of and revenue/profit from the operation of games by the Retained Tencent Group and the Group for each other, respectively.

Reasons and Benefits for Entering into the 2024 Game Cooperation Agreement

The Retained Tencent Group owns a large amount of top-rated game products and game platforms, and the Group has been dedicated to adapting its literary contents into games. It is expected that the Retained Tencent Group and the Group could leverage on each other’s competitive advantage in their products and platforms to improve the popularity of games owned by each other and the engagement of platform users. The Group expects that such two-way cooperation could enable it to further promote the monetization of the IP of its literary contents into games and extend the IP across non-book entertainment media formats to reach more users, thereby broadening and deepening the Group’s revenue streams.

3. 2024 Joint Investment Agreement

Principal terms of the 2024 Joint Investment Agreement are set out as follows:

- Date** : August 10, 2023
- Parties** : (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)
- Terms** : From January 1, 2024 to December 31, 2026
- Subject matter** : The Group shall cooperate with the Retained Tencent Group in the joint arrangements including but not limited to:
 - (1) making joint investments in the production of the films and television series,

- (2) making joint investments in the research and development of games, animations, comics and other products, and
- (3) forming joint ventures or other joint arrangements (whether as a partnership, a company or in any other form) for the purpose of the above joint investments.

Payment and settlement terms : The specific commercial terms of the investment and payment and settlement terms under the 2024 Joint Investment Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Joint Investment Agreement.

Pricing Policy

Both parties have agreed that specific commercial terms under the 2024 Joint Investment Agreement relating to the joint investment projects shall be determined after arm's length negotiation between the parties with reference to factors such as ownership of the copyrights, costs and expenses involved in the development, production and distribution of the relevant IP contents, revenue sharing or profit sharing arrangements, the equity interests of the parties in the joint arrangements, and the settlement of tax.

The specific investment amount, investment proportion, and proportion of investment return shall be determined on a case-by-case basis. Generally, unless otherwise agreed by the parties, the Group's investment return (being the portion out of the total returns generated by the relevant joint investment projects) shall be determined with reference to the proportion of investment amount that the Group has invested. The Group will only enter into an investment 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 amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group under the 2021 Joint Investment Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year ended December 31,		For the six months ended
	2021	2022	June 30, 2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group	466,057	62,499	1,016 (unaudited)

Annual Caps and Basis of Determination

The annual caps for the maximum investment cost to be contributed by the Group in the joint arrangements with the Retained Tencent Group under the 2024 Joint Investment Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of the investment cost to be contributed by the Group in the joint arrangements with the Retained Tencent Group	655,000	785,000	893,000

The above annual caps for the three years ending December 31, 2026 were determined with reference to (i) the scale, nature, popularity and commercial potential of the literary contents of the Group, (ii) the growth of the intellectual property adaptation market, (iii) the increase in the demand of joint investments attributed to the potential growth in the business of the Group and Retained Tencent Group and expedition of existing projects, in particular, (a) the potential cooperation in three to eight projects in the year ending December 31, 2024 based on the current negotiation, with the estimated investment amounts ranging from RMB80 million to RMB400 million per project, depending on the nature and commercial potential of the joint investment project, and (b) the estimated annual growth of one to two projects for the two years ending December 31, 2026, (iv) the anticipated scale of projects in the production and distribution of the films and television series and the research and development of games, animations and other products which the Group may be involved in, and (v) the expected costs involved in the production and distribution of the films and television series and the research and development of games, animations and other products.

Reasons and Benefits for Entering into the 2024 Joint Investment Agreement

The joint investment between the Retained Tencent Group and the Group will be a mutually beneficial cooperation arrangement. The formation of joint venture and engagement in joint arrangements for the adaptation of popular intellectual properties into the television series, films and other forms of media will enable the Group to reach more potential users and attract viewers of the television series, films and other forms of media to read the original literary content and purchase various entertainment products adapted from the literary content, thereby diversifying and expanding the reader base of the Group's literary works, increasing the potential revenue streams and enhancing the popularity and branding of the Group.

4. 2024 Media Production Consignment Agreement

Principal terms of the 2024 Media Production Consignment Agreement are set out as follows:

Date : August 10, 2023

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

- Terms** : From January 1, 2024 to December 31, 2026
- Subject matter** : The Retained Tencent Group shall cooperate with the Group on the following matters:
- (1) ***Production:*** the Group shall film and produce the film and television contents, including but not limited to the live-action films and television series, and animations for the Retained Tencent Group, and/or
 - (2) ***Distribution:*** the Group shall provide distribution, promotion and other business cooperation services in relation to the film and television contents, including but not limited to the films, television series, and animations for the Retained Tencent Group.
- Fee arrangements** : In return for the production and distribution, the Retained Tencent Group shall pay production fees and distribution 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 production and/or the distribution and payment and settlement terms under the 2024 Media Production Consignment Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Media Production Consignment Agreement.

Pricing Policy

The production fees and/or distribution fees payable and/or the percentage of the revenue/profit to be shared by the Retained Tencent Group to the Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market prices and considering various related commercial factors, including the nature, popularity, quantity, quality and commercial potential of the films, television series, and animations to be produced and distributed. The Group will only enter into a production consignment 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 amounts of the production fees and distribution fees paid by the Retained Tencent Group to the Group under the 2021 Media Production Consignment Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year ended December 31,		For the six months ended
	2021	2022	June 30, 2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i> (unaudited)
Aggregate amounts of the fees paid by the Retained Tencent Group to the Group	19,828	1,840	9,852

Annual Caps and Basis of Determination

The annual caps for the production fees and distribution fees payable by the Retained Tencent Group to the Group under the 2024 Media Production Consignment Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of the fees payable by the Retained Tencent Group to the Group	111,000	135,000	141,000

The above annual caps for the three years ending December 31, 2026 were determined with reference to (i) the estimated scale of potential films, television series and animations production projects that the Retained Tencent Group has intention to have the Group to produce and distribute in each year of the three years ending December 31, 2026, in particular, (a) the estimated scale of the potential cooperation in four to eight projects in the year ending December 31, 2024 based on the current negotiation, with the estimated production fees and distribution fees ranging from RMB8 million to RMB30 million per project, depending on the nature, popularity, scale and commercial potential of the films, television series, or animations, and (b) the estimated annual growth of one to two projects for the two years ending December 31, 2026, (ii) the average market prices of the production and distribution of the films, television series and animations, and (iii) the cooperation between the Group and the Retained Tencent Group as several delayed projects are estimated to kick off in the year ending December 31, 2024 based on current negotiation.

Reasons and Benefits for Entering into the 2024 Media Production Consignment Agreement

Tencent owns numerous popular IP concepts and intends to monetize the concepts. Through the cooperation on production and distribution, the Group could generate revenue from conducting the production and distribution of the films, television series and animations and further enhance the popularity of the Group’s platform and copyrights. It is also expected that the production and distribution of the film and television contents will broaden the user base of the Group, thereby enhancing the brand awareness of the Group’s platforms, products and services.

5. 2024 IP Cooperation Framework Agreement

Principal terms of the 2024 IP Cooperation Framework Agreement are set out as follows:

- Date** : August 10, 2023
- Parties** : (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)
- Terms** : From January 1, 2024 to December 31, 2026 (subject to Shareholders’ approval)

Subject matter : The Group agreed to the cooperation in the content adaptation of the Company’s literary works, distribution of the works (including but not limited to literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements).

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

Forms of cooperation : The parties shall cooperate on the following terms in respect of the IP Cooperation CCTs:

- (1) licensing by the Group of the adaptation rights, adapting literary works into live-action films and television series, games, audio works, comics or animations;
- (2) licensing by the Group of the information network transmission rights, broadcasting rights and projection rights of works (including but not limited to literary works, audio works, comics, live-action films and television series and animations);
- (3) licensing by the Group of the elements of literary works, audio works, live-action films and television series, comics and animations (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) to the Retained Tencent Group.

- Fee arrangements** : The parties shall cooperate on the following terms for the fee in respect of the IP Cooperation CCTs:
- (1) fixed fee,
 - (2) revenue/profit sharing, or
 - (3) a mix of the above fee arrangements.
- Payment and settlement terms** : Payment and settlement terms under the 2024 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2024 IP Cooperation Framework Agreement.

Pricing Policy

To determine the fee arrangements of the IP Cooperation CCTs, the Board takes into account (i) the potential commercial value and the popularity of the relevant IP, (ii) forms of cooperation, and (iii) length and form of the adaptations. Generally there is a fixed fee for the IP Cooperation CCT, and for some adaptations like games, the Group is further entitled to revenue/profit sharing agreed upon on a case-by-case basis.

- (1) In respect of the adaptation of the Group's literary works into games, films, televisions, comics and/or animations,
 - (i) various commercial factors such as the nature, popularity and commercial potential of the subject IPs, market practice for similar IPs and the prevailing market price and average revenue/profit sharing percentage in the industry which ranges from 2% (the Group): 98% (the Retained Tencent Group) to 50% (the Group): 50% (the Retained Tencent Group);
 - (ii) whether the IP Cooperation CCTs may involve other third parties (such as downstream production and distribution partners and writers), which depends on the subject of the content adaptation and the value that the counterparties are able to bring to the cooperation; and
 - (iii) the range of ancillary rights to be agreed such as co-investment rights and/or co-development rights in relation to products to be adapted from the literary works among all or certain cooperating business partners.

- (2) In respect of the licensing of the scripts and related IP adaptation rights (“**Scripts IPs**”),
- (iv) the estimated commercial value of the Scripts IP-based and pertinent television series and films, which in turn depends on (a) various commercial factors such as advertising revenue, audiences, expected rating, popularity, distribution cycle, price per episode and market comparable, (b) maturity, completeness of the Scripts IPs and their end user market, (c) financial resources and capabilities of online video platforms, and (d) mode and potential of subsequent adaptations (including the range of ancillary rights to be adapted, distribution channels, involvement of third parties (such as downstream production and distribution partners) and potential cooperation between the Group and the Retained Tencent Group thereof).
- (3) In respect of audio works and comics distributed on the platforms not operated by the Group,
- (v) the prevailing market price and average revenue/profit sharing percentage in the industry, which ranges from 50% (the Group): 50% (the Retained Tencent Group) to 80% (the Group): 20% (the Retained Tencent Group), and various commercial factors, including the nature, popularity and commercial potential of the relevant audio works and comics, and the quantity and quality of the Retained Tencent Group’s distribution platforms. The fixed licensing fees shall equal to or be more than the proportion of revenue/profit to be shared to the Group calculated by the above method.
- (4) In respect of literary works distributed on the platforms not operated by the Group,
- (vi) the fixed fee with reference to the prevailing market price in the industry, and various commercial factors, including the nature, popularity and commercial potential of the relevant literary works, and the quantity and quality of the Retained Tencent Group’s distribution platforms.
- (5) In respect of films, television series and animations distributed on the platforms not operated by the Group,
- (vii) the fixed production fees and/or distribution fees with reference to the prevailing market prices in the industry, and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of the films, television series, and animations to be produced and distributed.

The Group will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject IPs can be maximized and the relevant IP Cooperation CCTs are in the best interests of the Company and the Shareholders as a whole.

In respect of the licensing of Scripts IPs specifically, it is not directly comparable with those between the Group and other online video platforms as each Scripts IP is unique on its own. The Group will consider the historical commercial value of comparable television series and films sold by the Group to third parties under the traditional production model and compare against the licensing fees of the Scripts IPs, taking into account the factors including but not limited to the theme, price per episode, popularity and targeted end-users.

In respect of literary works, audio works and comics distributed on the platforms not operated by the Group specifically, although the Group does not have the power in determining the final price of literary works, audio works and comics distributed on the platforms not operated by the Group, the Group will adopt comparative pricing proposals conducted by the Business Development Team as to the pricing of such work when negotiating agreements for specific literary works, audio works and comics with the Retained Tencent Group, and such agreements will specify the price that the Retained Tencent Group will charge the end users for the literary works, audio works and comics. If the price charged by the Retained Tencent Group to its end users in such agreements is substantially lower than the price proposed by the Group, the Group has the discretion not to enter into such agreements with the Retained Tencent Group to ensure that the arrangement will not be detrimental to the interests of the Group.

The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2024 IP Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs under the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year ended December 31,		For the six months ended
	2021	2022	June 30,
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	2023
			<i>(RMB'000)</i>
			(unaudited)
Total fees paid by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	1,186,277	1,228,522	694,994

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the revenue of the Company derived from the IP Cooperation CCTs under the 2024 IP Cooperation Framework Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total fees payable by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	2,156,000	2,382,000	2,695,000

The above annual caps for the three years ending December 31, 2026 were determined taking into account the following factors.

- (1) *Fixed fee model for licensing of Scripts IPs:* New Classics Media licenses its Scripts IPs to online video platforms, based on which the online video platforms select production houses to produce the pertinent films and television series. Such business model enables New Classics Media to fully unlock its core competency in content planning and production, and to secure the buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time compared with the traditional production model. This business model is also welcomed by online video platforms because, from the perspective of online video platforms, it aligns with their strategy for high-quality content by enabling them to secure high quality IPs and content in advance while maintaining production flexibility. With reference to the historical revenue generated under such business model and based on the current negotiation with various online video platforms, including the Retained Tencent Group, the parties plan to increase the cooperation based on such business model. The potential licensing fees generated from such business model and the annual increase are estimated, taking into account, including but not limited to, the historical and the estimated popularity and commercial value of the Scripts, length and form of the adaptations, estimated revenue to be generated from the adaptations of Scripts IPs and investment and production costs required for subsequent adaptation and monetization of the Scripts IPs.
- (2) *Business strategy of the cooperation with the Retained Tencent Group:* The Group cooperates with different departments of the Retained Tencent Group on the adaption of the Group's literary works into games, films, televisions, comics and/or animations. The Group intends to expand its IP operation capability, of which the Group licenses its IPs to industry-leading developers, including the Retained Tencent Group, for content adaptation. To facilitate IP licensing, the Group has established an IP-focused intermediate business platform with key functional segments including IP screening, IP planning, and ecosystem partnerships expansion. The Group is dedicated to building a deep and immersive IP universe. Apart from third-party partners across the industry, the Retained Tencent Group plays a significant role in adapting and distributing the Group's IP to maximize the commercial value of its content. The collaboration covers different segments, including comics, films, drama series, and games. In terms of films and television series, New Classics Media and the Retained Tencent Group have established a partnership on serial development of premium IP franchises, in particular, (i) in respect of films, (a) the potential cooperation in four to nine projects in the year ending December 31, 2024 based on the current negotiation, with the estimated fees, depending on the nature and commercial potential of the films, and (b) the estimated annual growth of one to two projects for the two years ending December 31, 2026, and (ii) in respect of television series, (a) the potential cooperation in three to seven projects

in the year ending December 31, 2024 based on the current negotiation, with the estimated fees depending on the nature and commercial potential of the television series, and (b) the estimated annual growth of one or two projects for the two years ending December 31, 2026. In terms of games, (a) the Group and the Retained Tencent Group intend to cooperate in one to three projects in the year ending December 31, 2024 based on the current negotiation, with the estimated fees ranging from RMB10 million to RMB80 million per project, depending on the nature, popularity and commercial potential of the games, and (b) the estimated annual growth of one project for the two years ending December 31, 2026. Leveraging the synergy of such cooperation, the Company expects a corresponding increase in revenue generated from IP Cooperation CCTs.

- (3) the Board has estimated the revenue to be derived from the IP Cooperation CCTs for the year ending December 31, 2024, 2025 and 2026 taking into account (i) the annual increase of the projected number of Scripts IPs for each of the three years ending December 31, 2024, 2025 and 2026 in light of the current negotiation with the Retained Tencent Group, (ii) the historical data and the compound annual growth rate of 10% on the revenue derived from the IP Cooperation CCTs for the three years ended December 31, 2022, and (iii) the compound annual growth rate of 8% of the number of the Group's intellectual properties available for licensing and adaptation and the increase in monetization value of the Group's IPs whereby its literary titles grew from 13.9 million as of December 31, 2020 to 16.1 million as of December 31, 2022.

Reasons and Benefits for Entering into the 2024 IP Cooperation Framework Agreement

The Group generated revenues by monetizing the Group's vast literary contents in various manners through its own platforms as well as other channels including the Retained Tencent Group Channels, including, among others, copyright licensing for adaptation of the Group's literary works into films, television and web series, games and animations. The Retained Tencent Group is a technology company headquartered in the PRC, and is primarily engaged in communication, social, digital content, games, advertising, fintech and cloud services in the PRC with a vast user base. The Group's cooperation with the Retained Tencent Group will continue to maximize the commercial value of the literary works of the Group and further enhance the business growth of the Group. Notably, the Retained Tencent Group is also among the top operators of online video platforms in the PRC and the cooperation with the Retained Tencent Group on the licensing of Scripts IPs would allow the Company to leverage the resources of the Retained Tencent Group to unleash the competency of the Group in content planning and production.

INTERNAL CONTROL MEASURES

The Group's Business Development Team will seek to solicit cooperation with other Independent Third Parties to the extent commercially practicable, and will compare the commercial terms offered by the Independent Third Parties with those offered by the Retained Tencent Group in respect of all the continuing connected transactions of the Group entered into with the Retained Tencent Group.

In making the decision as to whether the Group will cooperate with the Retained Tencent Group, the Business Development Team will also consider other commercial factors, such as the potential of the intellectual properties, the prevailing market pricing, the prospects of the intellectual property cooperation, with a view to maximizing the commercial value of the relevant intellectual properties. The Business Development Team is required to comply with the pricing policies for the continuing connected transactions with the Retained Tencent Group as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policies.

Furthermore, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any independent third party), the Company has established a standard procedure to examine cooperation and its underlying agreement by taking into account various commercial factors. Before entering into an agreement, legal affairs department and finance department of the Company will conduct feasibility study and separate review of the cooperation and consider the benefits and risks of such cooperation on a case-by-case basis.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2024 Virtual Services Purchase Agreement, the 2024 Game Cooperation Agreement, the 2024 Joint Investment Agreement, and the 2024 Media Production Consignment Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder (including the annual caps for the three years ending December 31, 2026) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are of the view that the terms of the 2024 IP Cooperation Framework Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2026) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors have formed the Independent Board Committee for the purposes of advising the independent Shareholders in respect of the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and their views and recommendation will be included in the circular to be dispatched by the Company.

Mr. James Gordon Mitchell, Mr. Hou Xiaonan and Mr. Xie Qinghua, all being Directors, have abstained from voting on the relevant Board resolutions approving each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, (iv) the 2024 Media Production Consignment Agreement and (v) the 2024 IP Cooperation Framework Agreement and the transactions contemplated thereunder, due to their relationship with Tencent. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, (iv) the 2024 Media Production Consignment Agreement and (v) the 2024 IP Cooperation Framework Agreement.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature business, 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, fintech and cloud services in the PRC. Tencent Computer is principally engaged in the provision of value-added services and online advertising in the PRC.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, (iv) the 2024 Media Production Consignment Agreement, and (v) the 2024 IP Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for each of (i) the 2024 Virtual Services Purchase Agreement, (ii) the 2024 Game Cooperation Agreement, (iii) the 2024 Joint Investment Agreement, and (iv) the 2024 Media Production Consignment 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.

As the highest applicable percentage ratio in respect of the proposed annual caps for the 2024 IP Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under the 2024 IP Cooperation Framework Agreement, (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders, and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders will be dispatched to Shareholders. As the Company requires additional time to prepare and finalize certain information for inclusion in the circular, it will dispatch the circular to Shareholders on or before November 22, 2023.

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
“Business Development Team”	designated business development team of the Company comprising certain personnel responsible for overseeing its intellectual property operations
“Company”	China Literature Limited, an exempted company incorporated in the Cayman Islands with limited liability, 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

“Existing Cooperation Agreements”	the 2021 Virtual Services Purchase Agreement, the 2021 Game Cooperation Agreement, the 2021 Joint Investment Agreement, the 2021 Media Production Consignment Agreement, the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IP(s)”	intellectual property(ies)
“IP Cooperation CCT(s)”	the cooperation in the content adaptation of the Company’s literary works, distribution of the works (including but not limited to literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements)
“Independent Board Committee”	the independent committee of the Board, comprising Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, being all the independent non-executive Directors, established for the purpose of, among other things, advising the independent Shareholders in respect of the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026)
“Independent Third Parties”	any entity or person who is not a connected person of our Company within the meaning ascribed there to under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“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

“New Classics Media”	New Classics Media Holdings Limited, previously known as Qingdao Lake Holdings Limited, a company established in Cayman Islands on May 18, 2018 and whose subsidiaries are principally engaged in the production and distribution of television series and movies
“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) (previously known as Shengting Information Technology (Shanghai) Co., Ltd.) a company established in the PRC on May 27, 2008, and our indirectly wholly-owned subsidiary
“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 our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tencent”	Tencent Holdings Limited, 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
“2021 Distribution Framework Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the distribution of the films, television series and animations for the Group

“2021 Game Cooperation Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the joint operation of the games by the Retained Tencent Group or/and the Group and revised on August 16, 2021 in relation to the revision of annual caps
“2021 IP Cooperation Framework 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 16, 2021 in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works and comics) and/or licensing of the elements of these works
“2021 Joint Investment Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products
“2021 Media Production Consignment Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the production and distribution of the films, television series and animations for the Retained Tencent Group
“2021 Virtual Services Purchase Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the purchase of virtual serviced by the Retained Tencent Group from the Group
“2024 Game Cooperation Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the joint operation of the games by the Retained Tencent Group or/and the Group

“2024 IP Cooperation Framework Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works, comics, films, television series and animations) and/or licensing of the elements of these works
“2024 Joint Investment Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products
“2024 Media Production Consignment Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the production and distribution of the live-action films and television series and animations for the Retained Tencent Group
“2024 Virtual Services Purchase Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the purchase of virtual serviced by the Retained Tencent Group from the Group

**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, August 10, 2023

As at the date of this announcement, the Board comprises Mr. Hou Xiaonan and Mr. Huang Yan as executive Directors; Mr. James Gordon Mitchell, Mr. Cao Huayi and Mr. Xie Qinghua as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.