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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ASSETS

THE ACQUISITION

The Board is pleased to announce that on December 11, 2023, the Purchasers have entered into the Asset Transfer Agreement with the Sellers, pursuant to which, the Purchasers have conditionally agreed to acquire, and the Sellers have conditionally agreed to sell the Assets at a consideration of RMB600 million subject to downward adjustments.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is the controlling shareholder of the Company. Each Seller (excluding Tencent) is a wholly-owned subsidiary of Tencent and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Asset Transfer Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition is more than 0.1% but all the applicable percentage ratios are below 5%, the Acquisition is subject to reporting and announcement requirements but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on December 11, 2023, the Purchasers have entered into the Asset Transfer Agreement with the Sellers, pursuant to which, the Purchasers have conditionally agreed to acquire, and the Sellers have conditionally agreed to sell the Assets at a consideration of RMB600 million subject to downward adjustments.

THE ASSET TRANSFER AGREEMENT

Date

December 11, 2023

Parties

1. The Company;
2. Shanghai Yuewen, the Group's PRC Holdco (as one of the Purchasers);
3. Shanghai Yueting, an indirectly wholly-owned subsidiary of the Company (as one of the Purchasers);
4. Shanghai Hongwen, the Group's PRC Holdco (as one of the Purchasers);
5. Tencent (as one of the Sellers);
6. Tencent Computer, a wholly-owned subsidiary of Tencent (as one of the Sellers);
7. Tencent Animation and Comics, a wholly-owned subsidiary of Tencent (as one of the Sellers);
8. Tencent Technology, a wholly-owned subsidiary of Tencent (as one of the Sellers);
9. Tencent Shanghai, a wholly-owned subsidiary of Tencent (as one of the Sellers);
10. Tencent Pictures, a wholly-owned subsidiary of Tencent (as one of the Sellers); and
11. Guangxi Tencent, a wholly-owned subsidiary of Tencent (as one of the Sellers).

Subject Matter

The Purchasers have conditionally agreed to acquire, and the Sellers have conditionally agreed to sell the Assets.

Consideration and Payment Terms

The initial Consideration payable by the Purchasers for the Acquisition is RMB600 million (the “**Initial Consideration**”), which is subject to downward adjustments with reference to the value of assets actually transferred as a proportion of Assets upon the expiry date of the Term of Transfer Obligations as set out below.

(a) If P is or exceeds 5% of the Initial Consideration

Consideration = Initial Consideration – P

(b) If P is less than 5% of the Initial Consideration, and the number of Platform Works for which the transfer could not be completed is or exceeds one-third of the total number of Platform Works

Consideration = 95% * Initial Consideration

(c) If P is less than 5% of the Initial Consideration, and the number of Platform Works for which the transfer could not be completed is less than one-third of the total number of Platform Works

Consideration = Initial Consideration

* *P shall be the value of the assets for which the transfer could not be completed upon the expiry date of the Term of Transfer Obligations pursuant to the Asset Transfer Agreement as agreed by the parties of the Asset Transfer Agreement.*

The Consideration shall be settled by the Purchasers and Sellers in cash in the following manner:

- (i) the first instalment of the Consideration at RMB480,000,000, being 80% of the Initial Consideration (the “**First Instalment**”) shall be paid to the Sellers within ten (10) business days following the date of the Completion; and
- (ii) the second instalment of the Consideration (the “**Second Instalment**”) shall be settled as below:
 - (a) if the Consideration (as adjusted in accordance with the aforesaid downward adjustment mechanism) is greater than the First Instalment, the Second Instalment, being the Consideration minus the First Instalment, shall be paid to the Sellers within thirty (30) business days following the expiry date of the Term of Transfer Obligations; or
 - (b) if the Consideration (as adjusted in accordance with the aforesaid downward adjustment mechanism) is less than the First Instalment, the shortfall, being the First Instalment minus the Consideration, shall be refunded to the Purchasers within thirty (30) business days following the expiry date of the Term of Transfer Obligations.

Basis of Consideration

The Initial Consideration of RMB600 million was determined by the parties after arm's length negotiations with reference to, among others, (i) the appraised value of the Assets assessed by an independent valuer of the Company (the "Valuer") as at September 30, 2023 being RMB600 million, and (ii) the business development and prospects of the Assets, the synergy of the Assets with the Company, and the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and Benefits of the Acquisition" in this announcement.

In assessing the fairness and reasonableness of the Consideration, the management of the Company has discussed with the Valuer who adopted the market approach as the valuation methodology, which is based on the selection of comparable companies and providing an indication of value by comparing the financial information of the comparable companies and the Assets. Since the Assets were loss-making in the latest two financial years (2021 and 2022); while its business is asset-light in nature, the Valuer considered that price-to-sales ratio (P/S ratio) is more representative than other commonly adopted multiples like price-to-earnings ratio and price-to-book ratio.

The Valuer has identified a total of nine guideline public companies as comparable companies. Selection criteria of guideline public companies are as follows: (i) comparable companies selected have similarity in product feature and business model of the Company; (ii) comparable companies are listed companies engaged in online comic platforms; (iii) the companies with incomparable main businesses and those without online comic platforms, such as traditional publishing companies, companies specializing in physical books as the main product, and pure animation production and distribution companies were excluded; and (iv) certain companies with beta and market multiples that are significant outliers were also excluded.

Stock Code	Company Name	Market Capitalization <i>RMB million</i>	Revenue (for the trailing twelve months) <i>RMB million</i>	P/S Ratio	Principal Business
3932.TSE	Akatsuki Inc.	1,202.6	1,125.0	1.1x	Akatsuki Inc. is engaged in operation of the games App, comics App and music App.
9467.TSE	AlphaPolis Co. Ltd.	1,217.2	489.1	2.5x	AlphaPolis Co. Ltd. is engaged in book publishing and operates an online reading platform, in which both novels and comics are available.
4424.TSE	Amazia, Inc.	150.9	258.9	0.6x	Amazia, Inc. is engaged in operation of an online comics App.

Stock Code	Company Name	Market Capitalization <i>RMB million</i>	Revenue (for the trailing twelve months) <i>RMB million</i>	P/S Ratio	Principal Business
9626.HK	Bilibili Inc.	41,326.5	22,309.9	1.9x	Bilibili Inc. is engaged in operation of an online video platform and the Bilibili comics App, a leading online comics App in terms of the number of domestic active users.
3793.TSE	Drecom Co., Ltd.	799.2	493.0	1.6x	Drecom Co., Ltd. is engaged in operation of games, movies, online novels and comics.
3935.TSE	Edia Co., Ltd.	125.7	153.9	0.8x	Edia Co., Ltd. is engaged in licensing and operation of intellectual property rights, publishing, games, online novels and comics and music.
A20.KOSDAQ	Mr. Blue Corporation	728.3	443.1	1.7x	Mr. Blue Corporation is engaged in operation of an online comics and novels platform.
3641.TSE	Papyless Co., Ltd.	432.9	870.4	0.5x	Papyless Co., Ltd. is engaged in operation of e-books and provision of comics, novels and magazines.
7849.TSE	Starts Publishing Corporation	735.3	399.4	1.8x	Starts Publishing Corporation is engaged in traditional publishing and operation of Apps, online novels and comics.
				Minimum	0.5x
				Maximum	2.5x
				Mean	1.4x

Accordingly, the estimated valuation of the Assets of RMB600 million, was derived by multiplying the revenue of the Assets for the trailing twelve months as of September 30, 2023, being RMB484.5 million by (i) 1.4x, being the mean P/S multiple of the comparable companies listed above and (ii) adjusted by the market liquidity discount of approximately 28% and the control premium of approximately 25%. The above rate of market liquidity discount was determined with reference to the public research focused on the differences between transactions in common stock and restricted stock of the same publicly traded companies. The above rate of control premium was determined with reference to the public research focused on the average takeover premium of transactions on controlling interests.

Completion

Completion shall take place immediately upon unanimous consent of the parties of the Asset Transfer Agreement and after all of the conditions described in the Asset Transfer Agreement have been duly fulfilled or waived by the party who is entitled to the benefit thereof, including, among others, (i) completion of transfer of the APP Platform Assets in acceptable form to the parties of the Asset Transfer Agreement as at the date of Completion, (ii) completion of transfer of Animation Projects and Films and TV Series Projects in acceptable form to the parties of the Asset Transfer Agreement as at the date of Completion, (iii) completion of transfer of 90% equity interest of Michengzi to the Purchasers as at the date of Completion, unless upon written consent of the parties of the Asset Transfer Agreement, and (iv) completion of the termination of business cooperation and business contracts as agreed by the parties of the Asset Transfer Agreement as at the date of Completion. Upon the Completion, the Retained Tencent Group will no longer hold any equity interest in Michengzi and Michengzi will become a subsidiary of the Company.

In the event that there are still part of Assets that could not be transferred by the expiry date of the Term of Transfer Obligations, the Consideration shall be adjusted in accordance with the formula as set out above.

Information of the Assets

The Assets to be acquired by the Purchasers pursuant to the Asset Transfer Agreement include (i) the APP Platform Assets, (ii) the Animation Projects, (iii) Films and TV Series Projects and (iv) 90% equity interest of Michengzi.

The book value of the Assets is RMB442 million as at September 30, 2023.

For the years ended December 31, 2021 and 2022, the net losses of the Assets before taxation are RMB190 million and RMB111 million, respectively. As the Sellers could not separate the income tax expenses incurred solely on the Assets, the net losses of the Assets after taxation cannot be accurately arrived at by the Sellers.

Michengzi is a company established in the PRC and is principally engaged in the animation and comics creation. As of the date of this announcement, Michengzi is held as to 90% and 10% by Guangxi Tencent and an independent third party, respectively. Subsequent transfer of 90% equity interest of Michengzi acquired by the Purchasers is subject to approval of the other 10% shareholder.

The original acquisition cost of the intellectual property rights and the related rights acquired from third parties and 90% equity interest of Michengzi, to the Sellers was, in aggregate, approximately RMB329 million. As the rest of the Assets were developed and established by the Sellers, and were not acquired from third parties, there is no original acquisition cost for the rest of the Assets.

INFORMATION ON THE PARTIES

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

Shanghai Yuewen is principally engaged in Internet publication in the PRC.

Shanghai Yueting 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.

Shanghai Hongwen is principally engaged in Internet publication in the PRC.

Tencent and its subsidiaries are principally engaged in the provision of communication, social networks, digital content, games, online advertising, fintech and business services primarily in the PRC.

Tencent Computer is principally engaged in the provision of value-added services and online advertising in the PRC.

Tencent Animation and Comics is principally engaged in design and sales of animated products in the PRC.

Tencent Technology is principally engaged in development of softwares and provision of information technology services in the PRC.

Tencent Shanghai is principally engaged in development of softwares and provision of information technology services in the PRC.

Tencent Pictures is principally engaged in the financials of investment in, production of and distribution of, films for third parties in the PRC.

Guangxi Tencent is principally engaged in venture capital investments in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

To enrich China Literature’s portfolio of top-tier IP and improve the user experience

This Acquisition will further enrich China Literature’s premium content portfolio through the addition of Tencent Animation and Comics’ high-quality IPs. China Literature is currently the largest source of content for Tencent Animation and Comics, with approximately 50% of Tencent Animation and Comics’ top 30 best-selling comics adapted from China Literature’s literary works. This reflects the similarity of the users for comics and literary works. The Acquisition is expected to unleash powerful synergies between China Literature and Tencent Animation and Comics, and further enrich the product experience and consumption scenarios for our users.

To strengthen creator resources and optimize the content ecosystem

Through this Acquisition, the Company aims to integrate the creator resources, and explore to incubate and empower more creators across the intellectual property industry. This will encourage upstream creators to engage with the Company’s platform in a mutually beneficial manner, further promoting the healthy development of the Company’s content ecosystem.

To enhance China Literature’s capabilities in adapting literary works into animation and comics and accelerate the monetization potential of literary works

Over the past three years, five of the top ten revenue-generating comics from Tencent Animation and Comics were adapted from China Literature’s novels, three of which were adapted from China Literature’s mid-tier novels. This Acquisition will help the Company further unlock the potential of its literary works, especially for mid-tier works, thereby enhancing the overall value of the Company’s content library. The Acquisition is expected to accelerate the visualization process of the Company’s literary works. In future, the Company plans to use AI to improve the speed and efficiency of adapting literary works into animation and comics, and further amplify the value of its literary works in a quicker manner through batch adaptation.

To improve the efficiency and success rate of IP development efforts by integrated operations across the entire value chain

The Company has an elite team of professionals with capabilities to develop various IP products across different content formats, which will enable it to enhance the influence and value of the IP assets obtained through this Acquisition. At the same time, the Acquisition will enable the Company to take an integrated approach to developing downstream IP products based on online literature, such as comics, animation, TV and film, games, and merchandise. Such integrated development and operation of top IPs across the entire value chain in a reasonable and orderly manner will further enhance the efficiency and success rate of the Company's IP development efforts from incubation to visualization and commercialization.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that terms of the Asset Transfer Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder are conducted in the ordinary and usual business of the Company and on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. James Gordon Mitchell, Mr. Hou Xiaonan and Mr. Xie Qinghua (all being Directors), have abstained from voting on the relevant Board resolutions approving the Asset Transfer 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 the Asset Transfer Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is the controlling shareholder of the Company. Each Seller (excluding Tencent) is a wholly-owned subsidiary of Tencent and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Asset Transfer Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Acquisition is more than 0.1% but all the applicable percentage ratios are below 5%, the Acquisition is subject to reporting and announcement requirements but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

- “Asset Transfer Agreement” the asset transfer framework agreement entered into among the Company, the Purchasers and the Sellers dated December 11, 2023 in relation to the transfer of the Assets by the Sellers to the Purchasers;
- “Acquisition” the acquisition of Assets as agreed pursuant to the Asset Transfer Agreement;
- “Animation Projects” intellectual property rights and related rights, rights and interests related to external licensing and business contracts carrying the aforementioned related rights and interests in such agreed number of completed animation projects and animation projects in production, subject to the downward adjustment as otherwise agreed by the parties to the Asset Transfer Agreement;
- “APP Platform Assets” intellectual property rights and related rights owned by such agreed number of works (including but not limited to all comics, motion comics, novels, etc., and their constituent elements) published on the Tencent Animation and Comics APP Platform or which have obtained intellectual property rights or legal authorisation from intellectual property rights holders, rights and interests related to external licensing and online pay-per-view, business contracts carrying all of the aforementioned rights and interests and other assets and elements related to such works and the operation of the Tencent Animation and Comics APP Platform (including but not limited to APP client and applets, social media accounts, computer software copyrights, domain names, trademarks, data, etc.), subject to the downward adjustment as otherwise agreed by the parties to the Asset Transfer Agreement;
- “Assets” (i) the APP Platform Assets, (ii) the Animation Projects, (iii) Films and TV Series Projects, and (iv) 90% equity interest of Michengzi;
- “associate(s)” has the meaning ascribed to it under the Listing Rules;
- “Board” the board of Directors;

“Company” or “China Literature”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange with stock code 772;
“Completion”	the completion of the Acquisition;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the consideration payable by the Purchasers to the Sellers pursuant to the Asset Transfer Agreement;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Films and TV Series Projects”	intellectual property rights and related rights, investment rights, rights to distribution of profits, rights of attribution, publicity rights, distribution rights, development rights, and intellectual property rights of the early-stage developments, rights and interest related to external licensing and business contracts carrying all of the aforementioned rights and interests in such agreed number of film or television series projects, subject to the downward adjustment as otherwise agreed by the parties to the Asset Transfer Agreement
“Group”	the Company, its subsidiaries and its consolidated affiliated entities;
“Guangxi Tencent”	Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), a company established in the PRC on January 6, 2020 and a wholly-owned subsidiary of Tencent;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“intellectual property rights” or “IPs”	patents, trademarks, copyrights, design documents, Internet domain names, source code rights, object code rights, data, databases, trade secrets, know-how and other intellectual property rights (whether or not registered, including all pending applications for registration of such rights);

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time;
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange;
“Michengzi”	Shanghai Michengzi Culture Communication Company Limited (上海米橙子文化傳播有限公司), a company established in the PRC on April 20, 2022 and an indirect non-wholly owned subsidiary of Tencent as at the date of this announcement;
“Platform Works”	the works of the APP Platform Assets;
“PRC”	the People’s Republic of China
“PRC Holdco”	Shanghai Hongwen and Shanghai Yuewen
“Purchasers”	Shanghai Hongwen, Shanghai Yueting and Shanghai Yuewen;
“Retained Tencent Group”	Tencent and its subsidiaries, excluding our Group;
“Seller(s)”	Tencent Computer, Tencent Animation and Comics, Tencent Technology, Tencent Shanghai, Tencent, Tencent Pictures and Guangxi Tencent;
“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 one of our PRC Holdcos;
“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;
“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 one of our 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)”	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 Animation and Comics”	Shenzhen Tencent Animation and Comics Company Limited (深圳市騰訊動漫有限公司), a company established in the PRC on September 19, 2016 and a wholly-owned subsidiary of Tencent;
“Tencent Animation and Comics APP Platform”	all products of the Sellers related to animation and comics that are still in operation in the various applications, including but not limited to applications, WeChat applet, web pages, and other social media accounts;
“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;
“Tencent Pictures”	Tencent Film Culture Communication Co., Ltd. (騰訊影業文化傳播有限公司), a company established in the PRC on February 5, 2015 and a wholly-owned subsidiary of Tencent;
“Tencent Technology”	Tencent Technology (Shenzhen) Company Limited (騰訊科技(深圳)有限公司), a company established in the PRC on February 24, 2000 and a wholly-owned subsidiary of Tencent;
“Tencent Shanghai”	Tencent Technology (Shanghai) Company Limited (騰訊科技(上海)有限公司), a company established in the PRC on July 23, 2008 and a wholly-owned subsidiary of Tencent; and
“Term of Transfer Obligations”	six months commencing from the date of Completion or other term as otherwise agreed by the parties to the Asset Transfer Agreement.

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

Hong Kong, December 11, 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.