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阅文集团

CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
PROPOSED REVISION OF ANNUAL CAPS UNDER THE 2019 IP
COOPERATION FRAMEWORK AGREEMENT**

On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the Existing Cooperation Agreements, namely the 2017 Promotion Cooperation Framework Agreement, 2017 Payment Services Cooperation Framework Agreement and the 2017 Cloud Services and Technical Services Framework Agreement, by entering into (i) the 2020 Promotion Cooperation Framework Agreement in relation to the cooperation in the promotion of the Group's products or services through the platforms of the Retained Tencent Group or the third parties, (ii) the 2020 Payment Services Cooperation Framework Agreement in relation to the provision of payment services by the Retained Tencent Group through its payment channels to the Group's users for conducting online transactions, and (iii) the 2020 Cloud Services and Technical Services Framework Agreement in relation to the provision of the cloud services and other technical services by the Retained Tencent Group to the Group.

On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) further agreed to revise the annual caps under the 2019 IP Cooperation Framework Agreement.

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 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, (iii) the 2020 Cloud Services and Technical Services Framework Agreement, and (iv) the 2019 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 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, and (iii) the 2020 Cloud Services and Technical Services Framework 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 revised annual caps for the 2019 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 2019 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, is expected to be dispatched to Shareholders by no later than October 23, 2019.

INTRODUCTION

The Board is pleased to announce that, on September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the Existing Cooperation Agreements, namely the 2017 Promotion Cooperation Framework Agreement, the 2017 Payment Services Cooperation Framework Agreement and the 2017 Cloud Services and Technical Services Framework Agreement, by entering into (i) the 2020 Promotion Cooperation Framework Agreement in relation to the cooperation in the promotion of the Group's products or services through the platform of the Retained Tencent Group or the third parties, (ii) the 2020 Payment Services Cooperation Framework Agreement in relation to the provision of payment services by the Retained Tencent Group through its payment channels to the Group's users for conducting online transactions, and (iii) the 2020 Cloud Services and Technical Services Framework Agreement in relation to the provision of the cloud services and other technical services by the Retained Tencent Group to the Group.

The Board further announces that, on September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to revise the annual caps under the 2019 IP Cooperation Framework Agreement.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Prospectus in relation to, among others, the Existing Cooperation Agreements, namely the 2017 Promotion Cooperation Framework Agreement, the 2017 Payment Services Cooperation Framework Agreement and the 2017 Cloud Services and Technical Services Framework Agreement. As disclosed in the Prospectus, the Existing Cooperation Agreements shall expire on December 31, 2019.

On September 27, 2019, 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 the (i) the 2020 Promotion Cooperation Framework Agreement in relation to the cooperation in the promotion of the Group's products or services through the platform of the Retained Tencent Group or the third parties, (ii) the 2020 Payment Services Cooperation Framework Agreement in relation to the provision of payment services by the Retained Tencent Group through its payment channels to the Group's users for conducting online transactions, and (iii) the 2020 Cloud Services and Technical Services Framework Agreement in relation to the provision of the cloud services and other technical services by the Retained Tencent Group to the Group.

1. 2020 Promotion Cooperation Framework Agreement

Principal terms of the 2020 Promotion Cooperation Framework Agreement are set out as follows:

- Date** : September 27, 2019
- Parties** : (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)
- Terms** : From January 1, 2020 to December 31, 2022
- Subject matter** : The Retained Tencent Group shall promote the Group's products or services on platforms of the Retained Tencent Group or third parties which are recognized by both parties. The means of the promotion services shall include, but not limited to:
- provision of promotion services,
 - provision of links to products, content or services of the Group,
 - distribution of red packets (紅包), and
 - optimization of search results.
- Fee arrangements** : In return for the promotion services, the Group shall pay promotion services 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***: the Group shall share revenue/profit with Tencent using the following methods:
- Cost-Per-Time: charged on the basis of length of duration of promotion services provided by the Retained Tencent Group,
 - Cost-Per-Click: charged on the basis of the price of each click and number of clicks of online users,
 - Cost-Per-Download: charged on the basis of actual download volumes of the Group's products or services,
 - Cost-Per-Activity: charged on the basis of number of newly activated users,

- Cost-Per-Sale: charged on the basis of revenue generated from the users procured through the Retained Tencent Group,
- Cost-Per-Mille: charged on the basis of the number of impressions (expressed in thousands) generated by online users, and
- other fee split as separately agreed by relevant parties.

(3) A mix of the above fee arrangements.

The promotion services fees will be determined after arm's length negotiation between the parties with reference to the market rates.

Payment and settlement terms : The scope of the platforms, means of promotion and payment and settlement terms under the 2020 Promotion Cooperation Framework Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2020 Promotion Cooperation Framework Agreement.

Pricing Policy

Before entering into any promotion agreement pursuant to the 2020 Promotion Cooperation Framework Agreement, the Group will assess its business needs and compare the rates of promotion services fees proposed by the Retained Tencent Group with the rates offered by other comparable promotion service providers. The Group will only enter into a promotion service agreement with the Retained Tencent Group when the rates of promotion services fees proposed by the Retained Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of promotion services fees paid by the Group to the Retained Tencent Group under the 2017 Promotion Cooperation Framework Agreement for the two years ended December 31, 2018 and the six months ended June 30, 2019 are set out as follows:

	For the year ended December 31,		For the six months ended
	2017	2018	June 30,
	(RMB'000)	(RMB'000)	2019
			(RMB'000)
Aggregate amounts of promotion services fees paid by the Group to the Retained Tencent Group	52,891	42,767	63,728

Annual Caps and Basis of Determination

The annual caps for the promotion services fees payable by the Group to the Retained Tencent Group under the 2020 Promotion Cooperation Framework Agreement for the three years ending December 31, 2022 are set out as follows:

	For the year ending December 31,		
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregate amounts of promotion services fees payable by the Group to the Retained Tencent Group	250,000	250,000	250,000

The above annual caps for the three years ending December 31, 2022 were determined with reference to (i) the historical amounts of promotion services fees paid by the Group under the 2017 Promotion Cooperation Framework Agreement for the two years ended December 31, 2018 and the six months ended June 30, 2019, (ii) the potential growth in the Group's online reading business with reference to the promotional and marketing requirements, (iii) the Company's plan to promote its new free-to-read product and its self-operated online games, and (iv) the estimated year-on-year growth rate of 169% for the service fees paid by the Group for the year ending December 31, 2019 when compared with that for the year ended December 31, 2018.

Reasons and Benefits for Entering into the 2020 Promotion Cooperation Framework Agreement

By entering into the 2020 Promotion Cooperation Agreement, the Group could have more access to the various promotion services offered by the Retained Tencent Group. Leveraging Tencent's leading position in the Internet industry, the use of Tencent's promotion service would enable the Group to gain more popularity and reach more potential users, as well as increasing the Group's users and potential new users' awareness of and familiarity with the products of the Group.

2. 2020 Payment Services Cooperation Framework Agreement

Principal terms of the 2020 Payment Services Cooperation Framework Agreement are set out as follows:

Date	: September 27, 2019
Parties	: (1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	: From January 1, 2020 to December 31, 2022
Subject matter	: The Retained Tencent Group shall provide the Group with payment services through its payment channels so as to enable the Group's users to conduct online transactions.

- Fee arrangements** : In return for the payment services, the Group shall pay certain payment services commissions. The payment services commissions will be determined after arm's length negotiation between the parties with reference to the market rates.
- Payment and settlement terms** : The precise scope of service, commission fee rates, cooperation platform and settlement terms shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2020 Payment Services Cooperation Framework Agreement.

Pricing Policies

Before entering into any payment service agreement pursuant to the 2020 Payment Services Cooperation Framework Agreement, the Group will assess its business needs and compare the commission rates proposed by the Retained Tencent Group with the rates offered by other comparable payment service providers. The Group will only enter into a payment service agreement with the Retained Tencent Group when the payment service commission rates proposed by the Retained Tencent Group are in line with or lower than the market rates and the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of payment service commissions paid by the Group to the Retained Tencent Group under the 2017 Payment Services Framework Agreement for the two years ended December 31, 2018 and the six months ended June 30, 2019 are set out as follows:

	For the year ended December 31,		For the six months ended
	2017	2018	June 30,
	(RMB'000)	(RMB'000)	2019
			(RMB'000)
Aggregate amounts of payment service commissions paid by the Group to the Retained Tencent Group	11,219	11,199	4,756

Annual Caps and Basis of Determination

The annual caps for the payment service commissions payable by the Group to the Retained Tencent Group under the 2020 Payment Services Framework Agreement for the three years ending December 31, 2022 are set out as follows:

	For the year ending December 31,		
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregate amounts of payment service commissions payable by the Group to the Retained Tencent Group	13,000	19,000	26,000

The above annual caps for the three years ending December 31, 2022 were determined with reference to (i) the historical amounts of payment service commissions paid by the Group to the Retained Tencent Group for the two years ended December 31, 2018 and the six months ended June 30, 2019, and (ii) the estimated growth rate of 36.1% and 35.5% of the online literature market for the year ending December 31, 2021 and 2022 based on the research report obtained by the Company from relevant equity research analyst.

Reasons and Benefits for Entering into the 2020 Payment Services Framework Agreement

As Tencent is a leading player in the Internet industry and in particular the PRC online payment service industry, many of the Group's users use the Retained Tencent Group's online payment services. As such, the cooperation would enable the Group to provide the users of the Group with the best available payment methods and therefore enhance the Group's users' satisfaction with the services of the Group.

3. 2020 Cloud Services and Technical Services Framework Agreement

Principal terms of the 2020 Cloud Services and Technical Services Framework Agreement are set out as follows:

Date:	: September 27, 2019
Parties	: (1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	: From January 1, 2020 to December 31, 2022
Subject matter	: The Retained Tencent Group shall provide cloud services and other technical services to the Group for service fees. Cloud services and other technical services shall include: <ul style="list-style-type: none">• Cloud services: cloud services include, but not limited to, provision of cloud servers, cloud bandwidth, cloud storage, cloud database, cloud security, cloud monitoring, server leasing and server co-location.

- **Technology and engineering group (“TEG”) services:** TEG services include, but not limited to, (i) provision of servers and servers related intranet private line services, external access ports, related setup and server room on-site support, (ii) provision of customer services and other services related to the operations of the Group (for example, the pigeon service), (iii) provision of payment modules, and (iv) access to use of the Retained Tencent Group’s big data storage platform(s).
- **VIP domain name resolution service:** it includes the provision of intelligent DNS domain name resolution service for the Group’s domain names.

- Fee arrangements** : In return for the cloud services and other technical services, the Group shall pay services fees which will be determined after arm’s length negotiation between the parties on a “cost-plus” pricing basis and with reference to the market rates.
- Payment and settlement terms** : The precise scope of service, payment and settlement terms shall be agreed separately between the parties in implementation agreements, which will be entered into under the 2020 Cloud Services and Technical Services Framework Agreement.

Pricing Policies

Before entering into any cloud service agreement or technical service agreement pursuant to the 2020 Cloud Services and Technical Services Framework Agreement, the Group will assess the needs and compare the service fee rates proposed by the Retained Tencent Group with the rates offered by other competent service providers. The Group will only enter into a service agreement with the Retained Tencent Group when the service fee rates are in line with or lower than the market rates and the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of service fees paid by the Group to the Retained Tencent Group under the 2017 Cloud Services and Technical Services Framework Agreement for the two years ended December 31, 2018 and the six months ended June 30, 2019 are set out as follows:

	For the year ended December 31,		For the six months ended
	2017	2018	June 30,
	(RMB’000)	(RMB’000)	2019
			(RMB’000)
Aggregate amounts of service fees paid by the Group to the Retained Tencent Group	42,838	52,232	28,026

Annual Caps and Basis of Determination

The annual caps for the service fees payable by the Group to the Retained Tencent Group under the 2020 Cloud Services and Technical Services Framework Agreement for the three years ending December 31, 2022 are set out as follows:

	For the year ending December 31,		
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregate amounts of service fees payable by the Group to the Retained Tencent Group	85,000	98,000	110,000

The above annual caps for the three years ending December 31, 2022 were determined with reference to (i) the historical amounts of service fees paid by the Group to the Retained Tencent Group for the two years ended December 31, 2018 and the six months ended June 30, 2019, (ii) the estimated year-on-year increase of approximately 19% in the service fees paid by the Group for the year ending December 31, 2019 when compared with that for the year ended December 31, 2018, and (iii) the increase in demand of the Group for cloud service and other technical service attributable to the Group's new free-to-read business model and self-operated game business.

Reasons and Benefits for Entering into the 2020 Cloud Services and Technical Services Framework Agreement

As Tencent is a leading player in the Internet, and taking into account the wide spectrum of cloud services and technical services required for the Group's operation, the Group believes that obtaining such services from one single integrated service provider, namely the Retained Tencent Group, is the Group's best available option and will be able to reduce unnecessary additional costs incurred in seeking such services from different service providers.

PROPOSED REVISION OF ANNUAL CAPS UNDER THE 2019 IP COOPERATION FRAMEWORK AGREEMENT

Reference is made to the announcements of the Company dated March 18, 2019 and May 17, 2019 and the circular of the Company dated April 9, 2019 in relation to, among others, the 2019 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 audio works and comics) and/or the derivative rights of the intellectual property of these works. The annual caps under the 2019 IP Cooperation Framework Agreement prescribe that: (i) the revenue derived from the IP Cooperation CCTs (excluding audio and comics works not operated by the Group) during one financial year shall not exceed 6% of the audited revenue of the Company in respect of the immediate preceding financial year, (ii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the audio works which are not operated by the Group shall not exceed RMB9.0 million, RMB11.0 million and RMB13.5 million respectively for the three years ending December 31, 2021, (iii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the comics works which are not operated by the Group shall not exceed RMB1.0 million, RMB2.0 million and RMB3.0 million respectively for the three years ending December 31, 2021.

On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to revise the annual caps under the 2019 IP Cooperation Framework Agreement such that the proposed revised annual caps in monetary amount under the 2019 IP Cooperation Framework Agreement will be set for the three years ending December 31, 2021. Save for the proposed revision of annual caps, the rest of the other material terms of the 2019 IP Cooperation Agreement will remain unchanged.

Principal terms of the 2019 IP Cooperation Framework Agreement are set out as follows:

Date	: September 27, 2019
Parties	: (1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	: From the date of the Shareholders' approval to December 31, 2021
Subject matter	: The Group agreed the cooperation in the content adaptation of the Company's literary works, distribution of the works (including but not limited to audio works and comics and excluding films, television series and animation) and/or the derivative rights of intellectual property of these works.

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 of 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.

The 2019 IP Cooperation Framework Agreement only covers IP Cooperation CCTs entered into between the Group and any member of the Retained Tencent Group and does not cover any transaction between the Group and any associate of Tencent (whether with or without the involvement of any member of the Retained Tencent Group). The Company will comply with the Listing Rules in respect of the entering into of the transactions for adaptation of the intellectual property rights of the Group of its literary works with associates of Tencent separately and will not aggregate such transactions with the transactions contemplated under the 2019 IP Cooperation Framework Agreement.

For the avoidance of doubt, in the event that the Group cooperates with the Retained Tencent Group in the licensing of the internet information broadcast rights and broadcast rights of audiovisual works including films, television series and animation, such transactions will be conducted and carried out under the distribution framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018. For further details of the distribution framework agreement, please refer to the announcement of the Company dated August 13, 2018 and the circular of the Company dated September 28, 2018.

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|-------------------------------------|--|
| Forms of cooperation | <p>: Forms of cooperation under the 2019 IP Cooperation Framework Agreement include but are not limited to the following:</p> <ul style="list-style-type: none"> • Adaptation by the Retained Tencent Group of the Group's literary works into films, television series, games, audio works, comics or animations, and • Licensing by the Group of the information network transmission rights of works (including but not limited to audio works and comics and excluding films, television series and animation) and/or the derivative rights of the intellectual property of these works to the Retained Tencent Group. |
| Fee arrangements | <p>: The parties shall cooperate on the following terms for the fee in respect of the IP Cooperation CCTs:</p> <ul style="list-style-type: none"> • Fixed payment from the licensee to the licensor, • Revenue/profit sharing between the parties, and • A mix of the foregoing two commercial arrangements. |
| Payment and settlement terms | <p>: Payment and settlement terms under the 2019 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2019 IP Cooperation Framework Agreement.</p> |

Pricing Policies

The commercial arrangements to be agreed between the Group and the Retained Tencent Group will vary from project to project and will be determined by taking into account the following factors:

- (i) various commercial factors such as the nature, popularity and commercial potential of the subject project, market practice for similar projects and the prevailing market price and average revenue/profit sharing percentage in the industry,
- (ii) whether the IP Cooperation CCTs may involve other third parties (such as downstream production and distribution partners, financial investors 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.

The Business Development Team will seek to solicit cooperation with other Independent Third Parties to the extent practicable and compare the commercial terms (including but not limited to licensing value of the subject intellectual property, revenue/profit sharing arrangement, terms of cooperation and availability of co-investment or co-development right) offered by those Independent Third Parties with those offered by the Retained Tencent Group.

In making the decision as to whether the Group should cooperate with the Retained Tencent Group (whether with or without involvement of other third parties), other factors (beside the aforementioned commercial terms) that the Business Development Team will consider include but are not limited to the revenue or profit that may be brought by the proposed transactions, production capability, distribution channels (and their end-user/customer base) and financial resources of the counterparties. The Group will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject intellectual properties can be maximized and the relevant IP Cooperation CCTs are in the best interests of the Company and the Shareholders as a whole.

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, the Business Development Team 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.

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs for the three years ended December 31, 2018 and the six months ended June 30, 2019 are set out as follows:

	For the year ended December 31,			For the six months ended June 30,
	2016	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Fees paid by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	46,774	111,621	265,214	57,877

Proposed Revision of Annual Caps and Basis of Determination

The annual caps under the 2019 IP Cooperation Framework Agreement prescribe that: (i) the revenue derived from the IP Cooperation CCTs (excluding audio and comics works not operated by the Group) during one financial year shall not exceed 6% of the audited revenue of the Company in respect of the immediate preceding financial year, (ii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the audio works which are not operated by the Group shall not exceed RMB9.0 million, RMB11.0 million and RMB13.5 million respectively for the three years ending December 31, 2021, (iii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the comic works which are not operated by the Group shall not exceed RMB1.0 million, RMB2.0 million and RMB3.0 million respectively for the three years ending December 31, 2021 (collectively, the “**Existing Annual Caps**”).

The Board proposed to revise the Existing Annual Caps and set the annual caps for the revenue of the Company derived from the IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 as below:

	For the year ending December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Fees payable by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	950,000	1,300,000	1,700,000

The above proposed revised annual caps were determined by the Board taking into account the following:

- (a) *New business strategy of New Classics Media:* the proposed revised annual caps in respect of the revenue derived from the IP Cooperation CCTs are primarily attributable to the diversification of the business strategy of New Classics Media. Historically, New Classics Media, a wholly owned subsidiary of the Company, has been principally engaged in the production of television series and films and related entertainment business in the PRC. The industry is experiencing marco change and has entered the consolidation phase, and the demand on high-quality content from online video platforms is more vigorous. Upon accessing the current market situation, New Classics Media began to innovate on its business model to optimize the return on investment and maximize its core competency in content planning and production. Under the new business model, New Classics Media will license the scripts and related IP adaptation rights (“**Scripts IPs**”) to online video platforms, based on which the online video platforms will select production houses to produce the pertinent films and television series. Such new business model will enable New Classics Media to fully unlock its core competency in content planning and production and secure the buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time when compared with the traditional production model. The Company also believes that this new business model would also be 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. New Classics Media is negotiating with various online video platforms, including the Retained Tencent Group, on establishing cooperation based on this new business model,
- (b) *Fixed fee model for licensing of Scripts IPs:* based on the current negotiations with the Retained Tencent Group, the Company estimated that the licensing of Scripts IPs would adopt a fixed fee model with licensing fees ranging from RMB50.0 million to RMB400.0 million, taking into account, including but not limited to, 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. The Company also contemplates that, based on the current negotiations with the Retained Tencent Group, a total of four to five Scripts IPs would be licensed to the Retained Tencent Group for the year ending December 31, 2019, with an annual increase of one to two Scripts IPs for the year ending December 31, 2020 and 2021. As such, it is estimated that the licensing fee in respect of the Scripts IPs will account for a very substantial part of the revenue of the Company derived from the IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement, while the rest of the IP Cooperation CCTs will primarily focus on adaption of the Group’s literary works into games, films/televisions, comics and/or animations, and

- (c) the Board has estimated the revenue to be derived from the IP Cooperation CCTs for the year ending December 31, 2020 and 2021 taking into account (i) the annual increase of the number of Scripts IPs for the two years ending December 31, 2021, (ii) the compound annual growth rate of 140.60% on the revenue derived from the IP Cooperation CCTs for the three years ended December 31, 2018, (iii) the compound annual growth rate of 15.47% of the number of the Group's intellectual properties available for licensing and adaptation and the increase in monetization value of the Group's intellectual properties whereby its literary titles grew from 8.4 million as of December 31, 2016 to 11.2 million as of December 31, 2018, and (iv) the estimated rapid growth in the intellectual property adaptation market based on the information provided by Analysys, which forecasted that the annual growth rate of the entertainment industry market (including games, films, television and web series, animations, digital music and digital literary works) for the year ending December 31, 2020 to be 12.46%.

The agreement between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) which reflects the revised annual caps will take effect subject to the approval by independent Shareholders.

Reasons and Benefits for Entering into the 2019 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 platforms including the Retained Tencent Group platforms, including, among others, copyright licensing for adaptation of the Group's literary works sourced from the Group's online community into films, television and web series, PC and mobile games and animations. The Retained Tencent Group is a leading player in the Internet, social media and entertainment industries in the PRC with an extensive network coverage and 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 platform in the PRC and the cooperation with the Retained Tencent Group on the licensing of Scripts IPs would allow the Company to leverage on the resources and leading industry position of the Retained Tencent Group to unlock the competency of the Group in content planning and production.

INTERNAL CONTROL MEASURES

With regard to the 2019 IP Cooperation Framework Agreement, the Company has established pertinent internal procedures and implements these procedures for various departments involved in the IP Cooperation CCTs to follow to ensure that the relevant requirements will be duly complied with. The executive Directors will supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with different departments and inquiries into the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement), and the Board will also conduct regular review of the transactions underlying the 2019 IP Cooperation Framework Agreement.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of (i) the 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, and (iii) the 2020 Cloud Services and Technical Services Framework Agreement were determined after arm's length negotiation, and the transactions contemplated under the 2020 Promotion Cooperation Framework Agreement, the 2020 Payment Services Cooperation Framework Agreement and the 2020 Cloud Services and Technical Services Framework Agreement (including the annual caps for the three years ending December 31, 2022) 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 proposed revised annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 were determined after arm's length negotiation, and the transactions contemplated under the 2019 IP Cooperation Framework Agreement 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 revision of annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 and their views and recommendation will be included in the circular to be dispatched by the Company.

Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Chen Fei, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolutions approving each of (i) the 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, (iii) the 2020 Cloud Services and Technical Services Framework Agreement, and (iv) the 2019 IP Cooperation Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under each of (i) the 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, (iii) the 2020 Cloud Services and Technical Services Framework Agreement, and (iv) the 2019 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 and operates the leading online literature platforms. Shanghai Yueting is a direct 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 service and the marketing planning service.

Tencent and its subsidiaries are principally engaged in the provision of value-added services and online advertising services to users in the PRC. Tencent Computer is principally engaged in the provision of internet value-added services and advertisement services 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 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement, (iii) the 2020 Cloud Services and Technical Services Framework Agreement, and (iv) the 2019 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 2020 Promotion Cooperation Framework Agreement, (ii) the 2020 Payment Services Cooperation Framework Agreement and (iii) the 2020 Cloud Services and Technical Services Framework 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 annual caps for the 2019 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 2019 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, is expected to be dispatched to Shareholders by no later than October 23, 2019.

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)
“Director(s)”	the director(s) of the Company
“Existing Cooperation Agreements”	the 2017 Promotion Cooperation Framework Agreement, the 2017 Payment Services Cooperation Framework Agreement and the 2017 Cloud Services and Technical Services 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 Cooperation CCTs”	the cooperation in the content adaptation of the Group’s literary works, distribution of the products (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works under the 2019 IP Cooperation Framework Agreement
“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 proposed revised annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021
“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 “Qiandao Lake Holdings Limited”), a company established in Cayman Islands on 18 May 2018 and whose subsidiaries are principally engaged in 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
“Prospectus”	the prospectus of the Company dated October 26, 2017
“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 directly wholly-owned subsidiary
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholders”	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
“2017 Cloud Services and Technical Services 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 October 21, 2017, in relation to the provision of the cloud services and other technical services by the Retained Tencent Group to the Group
“2017 Payment Services 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 October 21, 2017 in relation to the provision of payment services by the Retained Tencent Group through its payment channels to the Group’s users conducting online transactions
“2017 Promotion 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 October 21, 2017 in relation to the cooperation in the promotion of the Group’s products or services on the platforms of the Retained Tencent Group
“2019 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 March 18, 2019 in relation to the cooperation in the content adaptation of content adaptation of the Group’s literary works, distribution of the products (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works
“2020 Cloud Services and Technical Services 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 September 27, 2019, in relation to the provision of cloud services and other technical services by the Retained Tencent Group to the Group
“2020 Payment Services 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 September 27, 2019 in relation to the provision of payment services by the Retained Tencent Group through its payment channels to the Group’s users for conducting online transactions

“2020 Promotion
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 September 27, 2019 in relation to the cooperation in the promotion of the Group’s products or services on the platforms of the Retained Tencent Group or third parties which are recognized by both parties

**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, September 27, 2019

As at the date of this announcement, the Board comprises Mr. Wu Wenhui and Mr. Liang Xiaodong as executive Directors, Mr. James Gordon Mitchell, Mr. Lin Haifeng, Mr. Cao Huayi and Ms. Chen Fei as non-executive Directors, Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.