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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)

MAJOR AND CONNECTED TRANSACTION AMENDMENT OF 2018 NCM SHARE PURCHASE AGREEMENT, 2018 LOCK-UP UNDERTAKINGS AND 2018 DEEDS OF NON-COMPETITION

The Board announces that, on August 27, 2020, the Company entered into the Supplemental SPA Deed with the Founder, Founder SPV, Ms. Qu, Qu SPV and Executive SPV, pursuant to which the parties agreed to amend the terms of the 2018 NCM Share Purchase Agreement. Under the Supplemental SPA Deed, among others, (i) the Original Earn Out Mechanism is revised; (ii) parties to the 2018 Lock-up Undertakings will enter into the Amendment Deeds of Lock-up Undertaking to revise the terms thereunder; and (iii) parties to the 2018 Deeds of Non-Competition will enter into the Amendment Deeds of Non-Competition to revise the terms thereunder.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Founder is a non-executive Director and thus a connected person of the Company. Furthermore, the Founder SPV and the Executive SPV are the associates of the Founder and thus connected persons of the Company. The transactions contemplated under the Transaction Documents 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 of the entire equity interest of New Classics Media under the 2018 NCM Share Purchase Agreement is more than 25% but all the percentage ratios are below 100%, the Transaction Documents and the transactions contemplated thereunder (including the amendment of the 2018 NCM Share Purchase Agreement, the 2018 Lock-up Undertakings and the 2018 Deeds of Non-Competition) constitute major and connected transactions of the Company and are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14 and 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under the Transaction Documents, (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 November 13, 2020.

INTRODUCTION

Reference is made to the announcements of the Company dated August 13, 2018, October 19, 2018 and October 31, 2018 (“**Announcements**”) and the circular of the Company dated September 28, 2018 (“**Circular**”) in respect of, among others, the acquisition of the entire equity interest of New Classics Media.

SUPPLEMENTAL SPA DEED

The Board announces that, on August 27, 2020, the Company entered into the Supplemental SPA Deed with the Founder, Founder SPV, Ms. Qu, Qu SPV and Executive SPV, pursuant to which the parties agreed to amend the terms of the 2018 NCM Share Purchase Agreement, under which (i) the Original Earn Out Mechanism and the Original Earn Out Consideration applicable to the year ending December 31, 2020 as set out in the 2018 NCM Share Purchase Agreement are revised; (ii) parties to the 2018 Lock-up Undertakings will enter into the Amendment Deeds of Lock-up Undertaking to revise the terms thereunder; and (iii) parties to the 2018 Deeds of Non-Competition will enter into the Amendment Deeds of Non-Competition to revise the terms thereunder. Major terms of the amendments are set out as follows:

(i) Amendment of the Original Earn Out Mechanism

The Original Earn Out Mechanism under the 2018 NCM Share Purchase Agreement for the year ending December 31, 2020 has been revised, under which the Original Earn Out Consideration payable by the Company for the year ending December 31, 2020 under the Original Earn Out Mechanism has been apportioned into five tranches and allocated to cover the five financial years of New Classics Media ending December 31, 2024.

Under the New Earn Out Mechanism, the amount of New Earn Out Consideration payable by the Company in a particular New Earn Out Year will depend on whether the Net Profit for the corresponding New Earn Out Year is less than, or equal to or more than the Reference Minimum Net Profit for the relevant New Earn Out Year as set out below:

New Earn Out Year ending	Reference Minimum Net Profit (RMB in millions)
December 31, 2020	200
December 31, 2021	300
December 31, 2022	300
December 31, 2023	300
December 31, 2024	300

(a) if the Net Profit for the relevant New Earn Out Year is less than the Reference Minimum Net Profit

No New Earn Out Consideration will be payable by the Company for the relevant New Earn Out Year.

(b) if the Net Profit for the relevant New Earn Out Year is equal to or more than the Reference Minimum Net Profit

The Company shall settle the New Earn Out Consideration in cash (“**Cash Amount**”) and by issuing new Consideration Shares (“**New Earn Out Shares**”) in accordance with the following formula:

(1) the Cash Amount:

$$\text{Cash Amount} = \frac{\text{Net Profit for that New Earn Out Year}}{\text{Reference Maximum Net Profit for that New Earn Out Year}} \times \text{Maximum Cash Amount} - \text{Adjustment Amount (cash portion) for that New Earn Out Year}$$

(2) the New Earn Out Shares:

$$\text{New Earn Out Shares} = \frac{\text{Net Profit for that New Earn Out Year}}{\text{Reference Maximum Net Profit for that New Earn Out Year}} \times \text{Maximum New Earn Out Shares} - \frac{\text{Adjustment Amount (Share portion) for that New Earn Out Year}}{\text{Issue Price}}$$

where,

- (w) the Reference Maximum Net Profit for the New Earn Out Years are set out as follows:

New Earn Out Year ending	Reference Maximum Net Profit (RMB in millions)
December 31, 2020	400
December 31, 2021	500
December 31, 2022	500
December 31, 2023	500
December 31, 2024	500

- (x) the Maximum Cash Amount and the Maximum New Earn Out Shares applicable to each of Founder SPV, Qu SPV and Executive SPV for each New Earn Out Year shall be:

	Founder SPV	Qu SPV	Executive SPV
Maximum Cash Amount	RMB 124,012,531.8	RMB 55,740,417.2	RMB 24,448,155
Maximum New Earn Out Shares	1,836,470 Consideration Shares	825,446 Consideration Shares	362,047 Consideration Shares

- (y) if the Net Profit for a New Earn Out Year is greater than the Reference Maximum Net Profit for that New Earn Out Year, the Net Profit for that New Earn Out Year will be the Reference Maximum Net Profit for that corresponding New Earn Out Year.
- (z) under no circumstances shall the Cash Amount and number of New Earn Out Shares for the relevant Management Vendor be less than zero or exceed the Maximum Cash Amount and Maximum New Earn Out Shares (as set out above) respectively for that Management Vendor for any New Earn Out Year.

(ii) Additional condition and adjustment of the New Earn Out Consideration

The New Earn Out Consideration applicable to the Founder SPV, Qu SPV and the Executive SPV shall be subject to an additional adjustment (“**Adjustment Amount**”). In the event that (i) in the case of the Founder SPV, certain selected employee(s) of New Classics Media other than the Management Members, (ii) in the case of the Qu SPV, Ms. Qu, or (iii) in the case of the Executive SPV, all shareholders of the Executive SPV who are also employees of New Classics Media and/or its subsidiaries, (a) breaches his/her non-compete undertakings and/or (b) ceases or terminates his/her employment relationship(s) with the Group by reason of resignation, dismissal or otherwise (other than as a result of death, physical or mental disability or unlawful dismissal as adjudicated by a court of competent authority) at any time during any New Earn Out Year, an agreed amount determined with reference to the positions held by such employees shall be the Adjustment Amount and shall be deducted from the New Earn Out Consideration applicable to the Founder SPV, Qu SPV and the Executive SPV for that New Earn Out Year and each New Earn Out Year thereafter.

(iii) Founder Non-Compete and Leaver Amount

In the event that the Founder (a) breaches his non-compete undertaking and/or (b) ceases or terminates his employment relationship with the Group by reason of resignation, dismissal or otherwise (other than as a result of death, physical or mental disability or unlawful dismissal as adjudicated by a court of competent authority) at any time during any New Earn Out Year, the Founder SPV must return to the Company an amount on a one-time basis (“**Founder Non-Compete and Leaver Amount**”) equal to the shortfall between the deduction amount and the instalment amount for the Founder SPV for the year ending December 31, 2020 under the Original Earn Out Mechanism and in accordance with the return of consideration under the Original Earn Out Mechanism.

The Founder Non-Compete and Leaver Amount shall not be less than zero nor exceed a cap equal to the total consideration actually received by the Founder SPV from the Company.

(iv) Removal of Roll-Over Mechanism, Overall Final Adjustment and Return of Consideration

Under the Original Earn Out Mechanism:

- (a) *Roll-over mechanism*: if the instalment amount in the Original Earn Out Mechanism is less than the deduction amount in the Original Earn Out Mechanism (if any) for an earn out year, such shortfall shall be carried forward to and shall be applied to deduct the instalment amount of the subsequent earn out year(s) (for the avoidance of doubt, such deduction will be in addition to any further deduction amount incurred in the relevant earn out year(s)), until the total instalment amount(s) for the remaining earn out year(s) is/are reduced to zero.

- (b) *Overall Final Adjustment:* in the event that the actual Net Profit for each of the three earn out years ending December 31, 2020 is no less than 90%, 75% and 100% of the reference Net Profit benchmark respectively, the net profit shortfall (if any) in an earn out year ended on December 31, 2018 and/or 2019 (being the first and/or second earn out year under the Original Earn Out Mechanism) shall be set off (in the order of firstly the Net Profit shortfall (if any) of such first earn out year, and then that of such second earn out year) by any net profit surplus incurred in any subsequent (but not preceding) earn out year(s). Following the adjustment above, the Company shall pay to the relevant Management Vendor an amount equal to the deduction amount(s) already deducted from the instalment amount which arise(s) from the net profit shortfall so set off above.
- (c) *Return of Consideration:* if, following the roll-over mechanism above and overall final adjustment above, there remains any outstanding deduction amount which have not yet been applied for deduction, the relevant Management Vendor shall pay to the Company such remaining amount in the manner following the order of priority below until the remaining amount has been fully settled by the relevant Management Vendor:
 - (i) by returning to the Company all the cash received by it under the 2018 NCM Share Purchase Agreement;
 - (ii) by returning to the Company the Consideration Shares or the proceeds of the Consideration Shares by the manner prescribed in the 2018 NCM Share Purchase Agreement.

Notwithstanding any other clauses in the 2018 NCM Share Purchase Agreement, the remaining amount of each Management Vendor shall be subject to a cap equal to the consideration received by such Management Vendor under the 2018 NCM Share Purchase Agreement.

Under the New Earn Out Mechanism:

- (a) the above roll-over mechanism, and overall final adjustment are removed and no such adjustment will be applied towards the New Earn Out Consideration due to the different methodologies used to calculate the Original Earn Out Consideration under the Original Earn Out Mechanism and the New Earn Out Consideration under the New Earn Out Mechanism; and
- (b) the above return of consideration is, to the extent it relates to the Founder SPV, amended in accordance with the Founder Non-Compete and Leaver Amount (set out above) and, to the extent it relates to Qu SPV and Executive SPV, removed.

Under the Original Earn Out Mechanism, a ‘top-down’ methodology was applied. If New Classics Media’s actual Net Profit for a certain earn out year is less than the reference Net Profit benchmark under the Original Earn Out Mechanism, certain agreed amount of consideration will be deducted from the Original Earn Out Consideration for that earn out year, and the above roll-over mechanism, overall final adjustment and return of consideration would be applicable to the Original Earn Out Consideration. Under the New Earn Out Mechanism, a ‘bottom-up’ methodology is applied such that only if New Classics Media’s actual Net Profit for a certain New Earn Out Year is higher than the Reference Minimum Net Profit for that New Earn Out Year can the Management Vendors start to receive New Earn Out Consideration based on the formula set out in this announcement, and if the actual Net Profit is equal to or higher than the Maximum Reference Net Profit for that New Earn Out Year, the Management Vendors can only receive the Maximum Cash Amount and the Maximum New Earn Out Shares, subject to an additional adjustment, rendering the above roll-over mechanism and overall final adjustment clauses no longer applicable.

(v) Removal of Controlled Account

Pursuant to the 2018 NCM Share Purchase Agreement, the Management Vendors have agreed to place part of the instalment cash amount for the year ending December 31, 2020 into escrow. Please see the Circular for further details.

Under the Revised NCM Share Purchase Agreement, the New Earn Out Consideration will not be placed into escrow or any controlled account.

(vi) Amendment of 2018 Lock-up Undertakings

Pursuant to the Amendment Deeds of Lock-up Undertaking, the Consideration Shares issued or to be issued to the Management Vendors will be subject to disposal restrictions from:

- (a) in respect of the Consideration Shares already issued to the Management Vendors as at the date of the Amendment Deeds of Lock-up Undertaking, the date of the Amendment Deeds of Lock-up Undertaking to April 1, 2025 and such Consideration Shares will be released from such restrictions in tranches; and
- (b) in respect of the Considerations Shares to be actually issued to the Management Vendors in respect of each New Earn Out Year, the issue date of such Consideration Shares, to April 1, 2025 and such Consideration Shares will be released from such restrictions in tranches.

(vii) Amendment of 2018 Deeds of Non-Competition

The non-competition undertakings given by the Founder, Ms. Qu and each key employee of NCM Group (each a “**Covenantor**”) will be extended to the latest of (a) December 31, 2024; (b) three years from the termination of all employment relationships between the relevant Covenantor and the Group; and (c) the date on which the relevant Covenantor holds, directly or indirectly through a controlled entity, less than 1% of the issued share capital of the Company.

Conditions precedent

The amendment of the 2018 NCM Share Purchase Agreement under Supplemental SPA Deed shall take effect from the date falling on the next day immediately after the conditions precedent below are satisfied or waived:

- (i) **Independent Shareholders’ Approval:** the approval of the independent Shareholders of the Company having been obtained at an extraordinary general meeting of the Company by way of a poll in relation to the entering into of the Supplemental SPA Deed and the performance of all transactions contemplated under the Supplemental SPA Deed, including the allotment and issue of the Consideration Shares, in accordance and in compliance with the Listing Rules;
- (ii) **Listing Approval:** the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;
- (iii) **Amendment Deeds of Non-Competition:** the due execution of the Amendment Deeds of Non-Competition by the parties thereto;
- (iv) **Amendment Deeds of Lock-up Undertaking:** the due execution of the Amendment Deeds of Lock-up Undertaking by the parties thereto; and
- (v) **Certified copy of minutes:** the delivery by each of the Management Vendors and the Company certified copy of the minutes of their respective board of directors approving the Transaction Documents and consummation of the transactions contemplated thereunder.

As of the date of this announcement, none of the conditions precedent above has been satisfied.

REASONS AND BENEFITS OF THE TRANSACTION DOCUMENTS

After the completion of acquisition of New Classics Media, the television and film industry in mainland China has been undergoing profound changes due to fluid and changing macro and industry environment (including factors such as policy and regulation changes, and competitive landscape of online video platforms etc.), resulting in a declining trend in the number of TV series and film project filings, productions and releases, as well as lower-than-expected revenue and profits from certain individual projects. In addition, the business operation of New Classics Media has been significantly affected by the outbreak of COVID-19 since the beginning of 2020. The outbreak of COVID-19 has resulted in a decrease in the advertising revenue of online video platforms and in turn a decrease in sales price of projects, longer production cycle of TV series and film projects and delayed launching of film projects due to impact of lockdown policies nationwide.

It is a difficult time for all sectors, especially for TV series and film production companies. Taking into account such environment, the Company believes that the benchmark profit for the year ending December 31, 2020 under the Original Earn Out Mechanism in the 2018 NCM Share Purchase Agreement is no longer commercially feasible nor reasonable and the Original Earn Out Mechanism should be adjusted, in order to better suit the current market conditions and long-term strategies of the Company.

Notwithstanding the challenging market conditions, New Classics Media continues to maintain steady production of premium quality TV series and film projects with continuous efforts from its renowned and experienced management team led by the Founder, Mr. Cao Huayi. As a well-known industry veteran with over 20 years of experience across script writing, intellectual property adaptation, and TV series and film production, the Founder has established a reputation of producing premium quality contents and an extensive network in television and film industry, attracting a talented and acclaimed roster of scriptwriters, directors and producers to work closely with New Classics Media in various projects. Other core management team members of New Classics Media are also experienced in the content production industry with strong track record, specializing in areas such as scriptwriting, intellectual property adaptation, production project management, sales of projects to TV stations and online video platforms, as well as project advertising and distribution. New Classics Media's core management team is of great importance to it and the Group in terms of managing New Classics Media's daily business operations and bringing industry resources to the Group's intellectual property ecosystem.

Although the benchmark profit for the year ending December 31, 2020 under the Original Earn Out Mechanism could hardly be met, the Company is of the view that the performance of New Classics Media has been outstanding among its peers with a clear core value, and the synergy between the Group and New Classics Media has been proven with the success of Joy of Life (慶餘年).

With the New Earn Out Mechanism, the core management team of New Classics Media could be incentivized to contribute to the production of high quality contents, integration of business of and synergy between the Group and New Classics Media in the long run and in turn, a more stable performance of the Group and New Classics Media could be achieved, due to the following reasons:

- (1) the New Earn Out Years will be extended under the New Earn Out Mechanism to cover the five years ending December 31, 2024;
- (2) New Classics Media has to achieve the Reference Minimum Net Profit for each New Earn Out Year in order for the Management Vendors to be able to receive the New Earn Out Consideration. While the actual Net Profit of New Classics Media is not solely dependent on whether key employees remain as employees of New Classics Media, considering the potential negative impact on the operations of New Classics Media if they were to leave, the Company can expect such key employees to stay as employees of New Classics Media and contribute to the net profit to obtain the New Earn Out Consideration during the New Earn Out years;
- (3) a significant portion of the New Earn Out Consideration will be settled by the issuance of Consideration Shares, aligning the interests of both the Management Vendors and the Company to combine their efforts, work more closely and create synergies, all of which might be jeopardized if the key employees were to leave New Classics Media during the New Earn Out Years;
- (4) with an aim to further deter key employees from leaving New Classics Media and/or breaching any non-competition undertakings with the Group, an additional Adjustment Amount will be deducted from the New Earn Out Consideration; and
- (5) with an aim to further deter the Founder from leaving New Classics Media and/or breaching his non-competition undertaking with the Group, a Founder Non-Compete and Leaver Amount shall be paid by the Founder SPV to the Company in the amount and manner as set out in this announcement.

As the Company is also undergoing changes in its management team, the extension of the New Earn Out Years under the New Earn Out Mechanism provides more time for the Company's new management and business team to develop synergies between the Group and New Classics Media. The Company would also have more time to strengthen the Company's intellectual property business, steered by a stable and motivated top creation team from New Classics Media. The new management team will drive the business synergy and integration progress through the establishment of a team with cross-sector knowledge in both online literature and drama production.

Furthermore, the relevant 2018 Deeds of Non-Competition and 2018 Lock-up Undertakings will also be revised to reflect the extension of the New Earn Out Years under the New Earn Out Mechanism, further tying in services of New Classics Media's core management team.

OPINION FROM THE BOARD

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 Transaction Documents were determined after arm's length negotiation, and the transactions contemplated thereunder 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 will form the Independent Board Committee for the purposes of advising the independent Shareholders in respect of the Transaction Documents and their views and recommendation will be included in the circular to be dispatched by the Company.

Mr. Cao Huayi, a Director, is a party to the Transaction Documents and has therefore abstained from voting on the relevant Board resolutions approving the Transaction Documents.

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.

The Founder currently serves as a non-executive Director, and Founder SPV is principally engaged in investment holding. Ms. Qu is a citizen and resident of the PRC and Qu SPV is principally engaged in investment holding. Executive SPV is principally engaged in investment holding.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Founder is a non-executive Director and thus a connected person of the Company. Furthermore, the Founder SPV and the Executive SPV are the associates of the Founder and thus connected persons of the Company. The transactions contemplated under the Transaction Documents 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 of the entire equity interest of New Classics Media under the 2018 NCM Share Purchase Agreement is more than 25% but all the percentage ratios are below 100%, the Transaction Documents and the transactions contemplated thereunder (including the amendment of the 2018 NCM Share Purchase Agreement, the 2018 Lock-up Undertakings and the 2018 Deeds of Non-Competition) constitute major and connected transactions of the Company and are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14 and 14A of the Listing Rules.

A circular containing, among other things, (i) details of the transactions contemplated under the Transaction Documents, (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 November 13, 2020.

DEFINITIONS

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

“associate”	has the meaning ascribed thereto under the Listing Rules
“Adjustment Amount”	has the meaning as defined in the paragraph headed “(ii) Additional condition and adjustment of the New Earn Out Consideration”
“Amendment Deeds of Lock-up Undertaking”	the amendment deeds to be executed by each of the Management Vendors and each of the Management Members in favour of the Company in relation to the 2018 Lock-up Undertakings
“Amendment Deeds of Non-Competition”	the amendment deeds to be executed by the Founder, Ms. Qu and each key employee of the NCM Group in favour of the Company in relation to the 2018 Deeds of Non-Competition
“Board”	the board of Directors
“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)
“Consideration Shares”	an aggregate of 153,936,541 new Shares to be issued by the Company pursuant to the 2018 NCM Share Purchase Agreement, where 15,119,815 new Shares remains to be outstanding for issue by the Company as New Earn Out Shares to the Management Vendors to satisfy part of the New Earn Out Consideration
“Director(s)”	the director(s) of the Company
“Executive SPV”	X-Poem Limited, a company incorporated with limited liability in the British Virgin Islands, whose registered office is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands and is owned as to 43.63% by the Founder

“Founder”	Mr. Huayi Cao, a non-executive Director and a founder of New Classics Media
“Founder SPV”	C-Hero Limited, a company incorporated with limited liability in the British Virgin Islands, the entire share capital of which is held by the Founder
“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
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“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 Transaction Documents
“Issue Price”	HK\$80 per Share
“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
“Management Members”	the Founder, Ms. Qu and the individual shareholders of the Executive SPV
“Management Vendor(s)”	Founder SPV, Qu SPV and Executive SPV
“Ms. Qu”	Yaqian Qu, a citizen and resident of the PRC
“Net Profit”	for any fiscal year of New Classics Media, the consolidated profit after tax (excluding certain items as set out in the 2018 NCM Share Purchase Agreement) of New Classics Media
“New Classics Media” or “NCM”	New Classics Media Holdings Limited (previously known as “Qiandao Lake Holdings Limited”), a company established in Cayman Islands on May 18, 2018 and whose subsidiaries are principally engaged in production and distribution of television series

“New Earn Out Consideration”	the relevant consideration payable by the Company to a Management Vendor under the New Earn Out Mechanism under the Revised NCM Share Purchase Agreement
“New Earn Out Mechanism”	an adjustment mechanism if the Net Profit of New Classics Media in respect of any New Earn Out Year does not meet a certain benchmarked level as set out in the Revised NCM Share Purchase Agreement
“New Earn Out Year(s)”	the fiscal year(s) of New Classics Media ending December 31, 2020, 2021, 2022, 2023 and 2024
“Original Earn Out Consideration”	the relevant consideration payable by the Company to a Management Vendor under the Original Earn Out Mechanism under the 2018 NCM Share Purchase Agreement
“Original Earn Out Mechanism”	the earn out mechanism as stipulated in the 2018 NCM Share Purchase Agreement, under which the total consideration payable by the Company to each of the Management Vendors was subject to a downward-only adjustment mechanism if the Net Profits of New Classics Media fall below a certain benchmarked level for the three years ending December 31, 2020
“PRC” or “China”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, Macau and Taiwan
“Qu SPV”	Ding Dong-D Limited a company incorporated with limited liability in the British Virgin Islands, the entire share capital of which is held by Ms. Qu
“Revised NCM Share Purchase Agreement”	the 2018 NCM Share Purchase Agreement as amended, supplemented and revised by the Supplemental SPA Deed
“RMB”	Renminbi, the lawful currency of the PRC
“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

“Supplemental SPA Deed”	the supplemental deed entered into between the Company, the Founder, Ms. Qu and the Management Vendors dated August 27, 2020 in relation to, among others, the amendment of the 2018 NCM Share Purchase Agreement
“Transaction Documents”	the Supplemental SPA Deed, the Amendment Deeds of Lock-up Undertaking and the Amendment Deeds of Non-Competition
“2018 Deed(s) of Non-Competition”	the deed of non-competition provided by each of the Founder, Ms. Qu and each key employee of the Group on October 31, 2018 in favour of the Company
“2018 Lock-up Undertaking(s)”	the deed of lock-up undertaking provided by each of the Management Vendors and each of the Management Members on October 31, 2018 in favour of the Company
“2018 NCM Share Purchase Agreement”	the share purchase agreement entered into, among others, the Company, Founder, Founder SPV, Ms. Qu, Qu SPV and Executive SPV dated August 13, 2018 in relation to the acquisition of the entire equity interest of New Classics Media

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

Hong Kong, August 27, 2020

As at the date of this announcement, the Board comprises Mr. Cheng Wu and Mr. Hou Xiaonan as executive Directors; Mr. James Gordon Mitchell, Mr. Wu Wenhui, Mr. Cao Huayi and Mr. Cheng Yun Ming Matthew as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.