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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)

CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 39.8821% EQUITY INTEREST IN SHENZHEN LANREN

THE DISPOSAL

The Board is pleased to announce that on January 15, 2021, Tianjin Yuewen (an indirect wholly-owned subsidiary of the Company) has entered into the Disposal Agreement with TME Subsidiary, a subsidiary of Tencent, the Target Group, the Other Vendors and the Management Shareholders, pursuant to which Tianjin Yuewen and the Other Vendors have agreed to sell 39.8821% and 60.1179% of the equity interest of the Target, respectively, and TME Subsidiary has conditionally agreed to acquire 100% equity interest of the Target at the aggregate consideration of RMB2.7 billion (including certain post-transaction equity settled awards to the Management Shareholders), of which RMB1,076,817,407 is payable to Tianjin Yuewen in cash. The transactions contemplated under the Disposal Agreement are inter-conditional upon each other.

As at the date of this announcement and immediately before the Completion, the Target is owned by Tianjin Yuewen and Other Vendors as to 39.8821% and 60.1179%, respectively. Upon the Completion, Tianjin Yuewen will no longer hold any equity interest in the Target.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is the controlling shareholder of the Company. TME Subsidiary is an indirect subsidiary of Tencent, and is therefore a connected person of the Company. Therefore, the Disposal is the connected transaction of the Company.

As the highest applicable percentage ratio in respect of the Disposal is more than 0.1% but all the percentage ratios are below 5%, the Disposal is therefore 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 January 15, 2021, Tianjin Yuewen (an indirect wholly-owned subsidiary of the Company) has entered into the Disposal Agreement with TME Subsidiary, a subsidiary of Tencent, the Target Group, the Other Vendors and the Management Shareholders, pursuant to which Tianjin Yuewen and the Other Vendors have agreed to sell 39.8821% and 60.1179% of the equity interest of the Target, respectively, and TME Subsidiary has conditionally agreed to acquire 100% equity interest of the Target at the aggregate consideration of RMB2.7 billion (including certain post-transaction equity settled awards to the Management Shareholders), of which RMB1,076,817,407 is payable to Tianjin Yuewen in cash. The transactions contemplated under the Disposal Agreement are inter-conditional upon each other.

As at the date of this announcement and immediately before the Completion, the Target is owned by Tianjin Yuewen and Other Vendors as to 39.8821% and 60.1179%, respectively. Upon the Completion, Tianjin Yuewen will no longer hold any equity interest in the Target.

DISPOSAL TO TME SUBSIDIARY

Date of the Disposal Agreement

January 15, 2021

Parties to the Disposal Agreement

1. TME Subsidiary (as the purchaser);
2. Tianjin Yuewen and Other Vendors (as the vendors);
3. Management Shareholders; and
4. Shenzhen Lanren (as the target).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the date of this announcement, (i) the Other Vendors, the Management Shareholders and their respective ultimate beneficial owners are parties independent of the Company and its connected persons; and (ii) Shenzhen Lanren is owned by Tianjin Yuewen and the Other Vendors as to 39.8821% and 60.1179%, respectively.

As at the date of this announcement and immediately before the Completion, the Target is owned by Tianjin Yuewen and Other Vendors as to 39.8821% and 60.1179%, respectively. Upon the Completion, Tianjin Yuewen will no longer hold any equity interest in the Target.

Subject Matter of the Disposal Agreement

The Board is pleased to announce that on January 15, 2021, Tianjin Yuewen (an indirect wholly-owned subsidiary of the Company) has entered into the Disposal Agreement with TME Subsidiary, a subsidiary of Tencent, the Target Group, the Other Vendors and the Management Shareholders, pursuant to which Tianjin Yuewen and the Other Vendors have agreed to sell 39.8821% and 60.1179% of the equity interest of the Target, respectively, and TME Subsidiary has conditionally agreed to acquire 100% equity interest of the Target at the aggregate consideration of RMB2.7 billion (including certain post-transaction equity settled awards to the Management Shareholders), of which RMB1,076,817,407 is payable to Tianjin Yuewen in cash. The transactions contemplated under the Disposal Agreement are inter-conditional upon each other.

Consideration and Payment Terms of the Disposal

The consideration payable by TME Subsidiary to Tianjin Yuewen is RMB1,076,817,407. The consideration shall be settled by TME Subsidiary in two instalments in cash to the Tianjin Yuewen. The half of the consideration payable to Tianjin Yuewen shall be paid within ten (10) business days after certain conditions are satisfied or waived in accordance with the Disposal Agreement. The other half of the consideration payable to Tianjin Yuewen shall be paid within ten (10) business days after the conditions precedent for the Completion are satisfied or waived.

Basis of Consideration

The consideration was determined by the parties after arm's length negotiations with reference to, among others, (i) the registered capital of the Target at RMB12,787,683; (ii) the book value of the Target at RMB0.35 billion as at June 30, 2020; (iii) comparable companies valuation benchmarks; and (iv) the business development and future prospects of the Target and the reasons for and benefits of the Disposal as stated under the section headed "Reasons for and Benefits of the Disposal" in this announcement.

Completion

The Completion shall take place immediately after the payment of the consideration by TME Subsidiary to Tianjin Yuewen. Upon the Completion, Tianjin Yuewen will no longer hold any equity interest in the Target.

INFORMATION ON THE PARTIES

The Group is principally engaged in the online literature business, and is a pioneer of China's online literature market and operates the leading online literature platforms. Tianjin Yuewen is an indirect wholly-owned subsidiary of the Company. Tianjin Yuewen is principally engaged in providing online literature services in the PRC.

TME Subsidiary operates as an investment vehicle of TME in the PRC. TME is a non wholly-owned subsidiary of Tencent.

The Target is principally engaged in the business of production, distribution and online broadcasting of podcasts, audiobooks and other interactive audio entertainment formats.

The original acquisition cost of the Group's 39.8821% equity interest in the Target was RMB43.64 million.

FINANCIAL INFORMATION OF THE TARGET

According to the financial statements prepared in accordance with the generally accepted accounting standards in the PRC, the net asset value of the Target is RMB0.35 billion as of June 30, 2020. The financial information of the Target for the years ended December 31, 2018 and 2019 is set out below:

	For the years ended December 31,	
	2018	2019
	<i>(RMB in millions)</i>	
Net profit before taxation and extraordinary items	26.71	48.10
Net profit after taxation and extraordinary items	25.51	40.99

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company, as one of the most prominent IP providers to audio book services, stands to benefit from TME and the Target together achieving faster growth than each could individually, and thus expanding the market for audio books more rapidly. The downstream audio book distribution market is currently relatively consolidated, so the emergence of a participant combining TME's capital and traffic with the Target's experience and expertise should increase competitive intensity downstream, which is advantageous for the Company's supplier position upstream. The Disposal constitutes an important step toward enhancing the Company's IP-centric ecosystem and increasing the awareness of the Company's IP among users of online audio services.

Based on the transaction consideration, the Company's gain from the Disposal is estimated to be around RMB0.8 billion. The actual gain as a result of the Disposal to be recorded by the Company is subject to a final audit to be performed by the Company's auditors.

The proceeds from the Disposal will be used for the future development of the Group, including but not limited to strengthening the core content creation business, building the content ecosystem and maintaining the competitiveness of the Company through mergers and acquisitions activities.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that terms of the Disposal Agreement were determined after arm's length negotiations, 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. Cheng Yun Ming Matthew, Mr. Cheng Wu and Mr. Hou Xiaonan, all being Directors, are employees of Tencent, and have therefore abstained from voting on the relevant Board resolutions approving the Disposal Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the Disposal Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tencent is the controlling shareholder of the Company. TME Subsidiary is an indirect subsidiary of Tencent, and is therefore a connected person of the Company. Therefore, the Disposal is the connected transaction of the Company.

As the highest applicable percentage ratio in respect of the Disposal is more than 0.1% but all the percentage ratios are below 5%, the Disposal is therefore 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:

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the Main Board of the Stock Exchange with stock code 772;
“Completion”	the completion of the Disposal;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Disposal Agreement”	a disposal agreement among Tianjin Yuewen, TME Subsidiary, the Target Group, the Other Vendors and the Management Shareholders dated January 15, 2021, pursuant to which Tianjin Yuewen and the Other Vendors have agreed to sell 39.8821% and 60.1179% of the equity interest of the Target, respectively, and TME Subsidiary has conditionally agreed to acquire 100% of the Target at the aggregate consideration of RMB2.7 billion (including certain post-transaction equity settled awards to the Management Shareholders);

“Disposal”	the disposal of 39.8821% of the equity interest of the Target by the Company to TME Subsidiary pursuant to the Disposal Agreement;
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time;
“independent third party(ies)”	has the meaning ascribed to it under the Listing Rules;
“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;
“Management Shareholders”	Mr. Song Bin and Mr. Huang Liu, independent third parties of the Company;
“Other Vendors”	collectively, Gongqingcheng Jiayu Investment Partnership (Limited Partnership) (共青城佳昱投資合夥企業(有限合夥)) which is the management shareholding platform of the Management Shareholders, Gongqingcheng Zhengyi Investment Management Partnership (Limited Partnership) (共青城正益投資管理合夥企業(有限合夥)), Shenzhen Qianhai Tianhe Culture Industry Investment Center (Limited Partnership) (深圳前海天和文化產業投資中心(有限合夥)), Fuhui Growth (Tianjin) Asset Management Center (Limited Partnership) (孚惠成長(天津)資產管理中心(有限合夥)), Shenzhen Times Tianhe Culture Industry Investment Center (Limited Partnership) (深圳時代天和文化產業投資中心(有限合夥)), Shenzhen Lingrui Cornerstone Equity Investment Fund Partnership (Limited Partnership) (深圳市領瑞基石股權投資基金合夥(有限合夥)), and Three Thousand World (Kunshan) Cultural Industry Investment Partnership (Limited Partnership) (三千世界(昆山)文化產業投資合夥企業(有限合夥));
“PRC” or “China”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each;
“Shareholder(s)”	the holder(s) of the Share(s);

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Target” or “Shenzhen Lanren”	Shenzhen Lanren Online Technology Co., Ltd. (深圳市懶人在線科技有限公司), a company established in the PRC on March 27, 2012 and is held by Tianjin Yuewen and Other Vendors as to 39.8821% and 60.1179%, respectively, as at the date of this announcement;
“Target Group”	the Target and Beijing Shengdong Lanren Culture Technology Co., Ltd. (北京聲動懶人文化科技有限公司);
“Tencent”	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700), and the controlling shareholder of the Company;
“Tianjin Yuewen”	Tianjin Yuewen Film Culture Media Co., Ltd. (天津閱文影視文化傳媒有限公司), a company established in the PRC on May 30, 2018 and an indirect wholly-owned subsidiary of the Company;
“TME”	Tencent Music Entertainment Group, a company incorporated under the laws of the Cayman Islands whose shares are listed on the New York Stock Exchange (stock code: TME), and a non wholly-owned subsidiary of Tencent;
“TME Group”	TME and its subsidiaries, which includes the Target from the date of the Completion; and
“TME Subsidiary”	Guangxi Qingse Venture Capital Co., Ltd. (廣西青瑟創業投資有限公司), a company established in the PRC on September 8, 2020 and a subsidiary of TME.

By order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell

Chairman of the Board and Non-executive Director

Hong Kong, January 15, 2021

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Cheng Wu and Mr. Hou Xiaonan as executive Directors; Mr. James Gordon Mitchell, Mr. 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.