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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)

CONTINUING CONNECTED TRANSACTIONS

On March 22, 2022, Shanghai Yueting (on behalf of the Group) and Ookbee (on behalf of the Ookbee Group) agreed to enter into the E-Publishing Framework Agreement in relation to, among other things, the cooperation in the e-publishing rights and/or the rights for publication of physical books in Thailand.

On March 22, 2022, Shanghai Yueting (on behalf of the Group) and Cangqiong Entertainment (on behalf of the Cangqiong Group) agreed to enter into the Game Copyright Cooperation Framework Agreement in relation to, among other things, the licensing of the adaptation right of the literary works into games.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling shareholder of the Company and Ookbee is a 30%-controlled company and an associate of Tencent. Accordingly, Ookbee is a connected person of the Company and the transactions contemplated under the E-Publishing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As of the date of this announcement, Cangqiong Entertainment is a 30%-controlled company and an associate of Tencent. Accordingly, Cangqiong Entertainment is a connected person of the Company and the transactions contemplated under the Game Copyright 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 E-Publishing Framework Agreement, and (ii) the Game Copyright Cooperation 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.

INTRODUCTION

The Board is pleased to announce that, on March 22, 2022,

- (1) Shanghai Yueting (on behalf of the Group) and Ookbee (on behalf of the Ookbee Group) agreed to enter into the E-Publishing Framework Agreement in relation to, among other things, the cooperation in the e-publishing rights and/or the rights for publication of physical books in Thailand.
- (2) Shanghai Yueting (on behalf of the Group) and Cangqiong Entertainment (on behalf of the Cangqiong Group) agreed to enter into the Game Copyright Cooperation Framework Agreement in relation to, among other things, the licensing of the adaptation right of the literary works into games.

CONTINUING CONNECTED TRANSACTIONS

1. E-Publishing Framework Agreement

Principal terms of the E-Publishing Framework Agreement are set out as follows:

Date: March 22, 2022

Parties: (1) Shanghai Yueting (on behalf of the Group), and
(2) Ookbee (on behalf of the Ookbee Group)

Term: From the date of this announcement to December 31, 2024

Subject matter: The Group agreed to cooperate in various manners with respect to its respective legally owned or licensed copyrights to the Ookbee Group.

For the avoidance of doubt, such cooperation 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 copyrights licensing of the Group's works.

- Forms of cooperation:** Forms of cooperation under the E-Publishing Framework Agreement include but not limited to the following:
- (1) licensing of the e-publishing rights (電子發行權) of the literary works, audio works and comics by the Group to the Ookbee Group; and/or
 - (2) licensing of the rights for publication of physical books (紙質圖書出版權) by the Group to the Ookbee Group.
- Fee arrangements:** The parties shall determine the fee arrangement under the E-Publishing Framework Agreement based on one of the following methods:
- (1) fixed fee,
 - (2) revenue/profit sharing, or
 - (3) a mix of the above fee arrangements.
- Payment and settlement terms:** Payment and settlement terms under the E-Publishing Framework Agreement shall be specified in each of the implementation agreements to be entered into under the E-Publishing Framework Agreement.

Pricing Policy

The licensing fees payable or the revenue/profit to be shared by the Ookbee Group with the Group shall be determined after arm's length negotiation with reference to the prevailing market prices and considering various commercial factors, including the nature, popularity, quality, and commercial potential of relevant works. The Group will only enter into an implementation agreement with the Ookbee Group under the E-Publishing Framework Agreement when the licensing fees or revenue/profit sharing rate is fair and reasonable, and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of the aggregate amounts of the licensing fees paid by the Ookbee Group to the Group for the three years ended December 31, 2021 are nil, RMB5,013,858 and RMB8,333,149, respectively.

Annual Caps and Basis of Determination

The annual caps for the licensing fees payable by the Ookbee Group to the Group under the E-Publishing Framework Agreement for the three years ending December 31, 2024 are set out as follows:

	For the year ending December 31,		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregate amounts of licensing fees payable by the Ookbee Group to the Group	14,827	22,269	29,827

The above annual caps for the three years ending December 31, 2024 were determined by taking into account (i) the historical amount for the year ended December 31, 2021, (ii) with respect to the literary works, (a) the potential cooperation in 150 to 300 literary works for the year ending December 31, 2022 based on the current negotiations between the Group and the Ookbee Group, with the estimated licensing fee ranging from RMB2,880 to RMB86,400 per literary work, depending on the nature, popularity and commercial potential of the literary works, and (b) the annual growth of the cooperation in 40 to 70 literary works for each of the two years ending December 31, 2024, (iii) with respect to the audio works and comics, (a) the potential cooperation in 15 to 20 audio works and comics in total for the year ending December 31, 2022 based on the current negotiations between the Group and the Ookbee Group, with the estimated licensing fee ranging from RMB20,000 to RMB140,000 per audio work or comics, depending on the nature, popularity and commercial potential of the audio works and comics, and (b) the annual growth of the cooperation in 50 to 70 audio works and comics for each of the two years ending December 31, 2024; and (iv) the average market price for licensing copyrights.

Reasons and Benefits for Entering into the E-Publishing Framework Agreement

The Company expects online literature and e-publishing market in Thailand to grow at a faster pace with increasing awareness of online literature and its market potential among Internet users, content creators and foreign content providers. As the Ookbee Group has a large local user base, leveraging the popularity of the Ookbee Group and its familiarity with the online literature market in Thailand, the Group could open up the online literature business in Thailand, promote the diversity of the works of the Group and further extend the user base.

2. Game Copyright Cooperation Framework Agreement

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

Date:	March 22, 2022
Parties:	(1) Shanghai Yueting (on behalf of the Group), and (2) Cangqiong Entertainment (on behalf of the Cangqiong Group)
Term:	From the date of this announcement to December 31, 2024
Subject matter:	The Cangqiong Group agreed to exclusively license its adaptation right of the literary works into games to the Group.
Fee arrangements:	The parties shall determine the fee arrangement under the Game Copyright Cooperation Framework Agreement based on one of the following methods: (1) fixed fee, (2) revenue/profit sharing, or (3) a mix of the above fee arrangements.
Payment and settlement terms:	Payment and settlement terms under the Game Copyright Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the Game Copyright Cooperation Framework Agreement.

Pricing Policy

The licensing fees payable or the revenue/profit to be shared by the Group with the Cangqiong Group shall be determined after arm's length negotiation with reference to the prevailing market prices and considering various commercial factors, including the nature, popularity, quality, and commercial potential of relevant games. The Group will only enter into an implementation agreement with the Cangqiong Group under the Game Copyright Cooperation Framework Agreement when the licensing fees or revenue/profit sharing rate is fair and reasonable, and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

As the transactions in respect of the licensing of the adaptation right of the literary works into games were new business opportunities that the Group and the Cangqiong Group explored in the year 2022, no historical data is available to be taken as a reference for the determination of the annual caps for the licensing fees payable by the Group to the Cangqiong Group under the Game Copyright Cooperation Framework Agreement.

Annual Caps and Basis of Determination

The annual caps for the licensing fees payable by the Group to the Cangqiong Group under the Game Copyright Cooperation Framework Agreement for the three years ending December 31, 2024 are set out as follows:

	For the year ending December 31,		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of licensing fees payable by the Group to the Cangqiong Group	70,000	70,000	70,000

The above annual caps for the three years ending December 31, 2024 were determined by taking into account (i) the estimated scale of the potential cooperation in one to five games under the Game Copyright Cooperation Framework Agreement for each of the three years ending December 31, 2024 based on the current negotiations between the Group and the Cangqiong Group, with the estimated licensing fee ranging from RMB10 million to RMB60 million per game depending on the nature, popularity and commercial potential of the games; and (ii) the average market rate for licensing adaptation rights of literary works into games.

Reasons and Benefits for Entering into the Game Copyright Cooperation Framework Agreement

Cangqiong Entertainment owns popular IP concept with high commercial value. It is expected that the cooperation between the Group and the Cangqiong Group could unleash the monetization potential of Cangqiong Entertainment's IP. The parties can completely avail of their respective competitive advantages, consolidate their high-quality resources and deploy the excellent teams, thereby integrating the literary content into games, increasing the popularity of the relevant literary content, and maximizing the value of the literary works.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the E-Publishing Framework Agreement and the Game Copyright Cooperation Framework Agreement (including the annual caps for the three years ending December 31, 2024) 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.

Mr. James Gordon Mitchell, Mr. Cheng Yun Ming Matthew, Mr. Cheng Wu, Mr. Hou Xiaonan and Mr. Zou Zhengyu, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolutions approving each of (i) the E-Publishing Framework Agreement, and (ii) the Game Copyright 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 E-Publishing Framework Agreement, or (ii) the Game Copyright Cooperation Framework Agreement.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature and IP incubation businesses, and is a pioneer of China's online literature market. Shanghai Yueting is an indirectly wholly-owned subsidiary of the Company which is principally engaged in the business of the development in computer hardware and software, the design and production of computer products, providing technical services and marketing planning services.

Ookbee is principally engaged in the business of providing online literature and digital lifestyle content through various online platforms owned by it and its subsidiaries.

Cangqiong Entertainment is principally engaged in production and distribution of television programs and movies.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling shareholder of the Company and Ookbee is a 30%-controlled company and an associate of Tencent. Accordingly, Ookbee is a connected person of the Company and the transactions contemplated under the E-Publishing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As of the date of this announcement, Cangqiong Entertainment is a 30%-controlled company and an associate of Tencent. Accordingly, Cangqiong Entertainment is a connected person of the Company and the transactions contemplated under the Game Copyright 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 E-Publishing Framework Agreement, and (ii) the Game Copyright Cooperation 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.

DEFINITIONS

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

“30%-controlled company”	has the meaning ascribed to it under the Listing Rules
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Cangqiong Entertainment”	Cangqiong Entertainment (Tianjin) Cultural Communication Co., Ltd. (蒼穹互娛(天津)文化傳播有限公司), a company established in the PRC on November 6, 2017, and an associate of Tencent
“Cangqiong Group”	Cangqiong Entertainment and its subsidiaries from time to time
“Company”	China Literature Limited (閱文集團), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, whose shares are listed on the Main Board (stock code: 772)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“E-Publishing Framework Agreement”	an agreement entered into on March 22, 2022 between Shanghai Yueting (on behalf of the Group) and Ookbee (on behalf of the Ookbee Group) in relation to, among other things, the cooperation in the e-publishing rights and/or the rights for publication of physical books in Thailand
“Game Copyright Cooperation Framework Agreement”	an agreement entered into on March 22, 2022 between Shanghai Yueting (on behalf of the Group) and Cangqiong Entertainment (on behalf of the Cangqiong Group) in relation to, among other things, the licensing of the adaptation right of the literary works into games
“Group”	the Company, its subsidiaries, and its consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IP(s)”	intellectual property(ies)
“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
“Ookbee”	Ookbee Company Limited, a private limited company organized under the laws of Thailand on March 1, 2012 and an associate of Tencent
“Ookbee Group”	Ookbee, its subsidiaries and associates from time to time
“PRC” or “China”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, Macau, and Taiwan
“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), a company established in the PRC on May 27, 2008, and an indirectly wholly-owned subsidiary of the Company
“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)
“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 organized 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
“%”	percent

**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, March 22, 2022

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. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.