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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

**PROPOSED AMENDMENTS TO
THE 2020 RESTRICTED SHARE UNIT SCHEME
AND
PROPOSED AMENDMENTS TO THE SHARE OPTION PLAN**

Pursuant to the Consultation Conclusions, Chapter 17 of the Listing Rules has been amended to govern share award schemes and share option schemes with effect from January 1, 2023.

In light of the above, the Board is pleased to announce that it has resolved on April 28, 2023 in relation to the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan in order to bring in line with the Amended Rules.

Pursuant to the Amended Rules, alterations to the terms and conditions of the 2020 Restricted Share Unit Scheme and Share Option Plan, which are of a material nature, must be approved by the Shareholders by way of ordinary resolutions in a general meeting of the Company. As the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan are of a material nature, the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan will be subject to, among others, Shareholders' approval.

INTRODUCTION

The Company adopted the 2020 Restricted Share Unit Scheme on May 15, 2020. Details of the 2020 Restricted Share Unit Scheme are set out in the announcement of the Company dated May 15, 2020. The purposes of the 2020 Restricted Share Unit Scheme are to (i) recognise the contributions by the Participants with an opportunity to acquire a proprietary interest in the Company; (ii) encourage and retain such individuals for the continual operation and development of the Group; (iii) provide additional incentives for them to achieve performance goals; (iv) attract suitable personnel for further development of the Group; and (v) motivate the Participants to

maximise the value of the Company for the benefits of both the Participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Participants directly to the Shareholders through ownership of Shares.

The Company adopted the Share Option Plan on May 24, 2021. Details of the Share Option Plan are set out in the announcement of the Company dated March 25, 2021 and the circular of the Company dated April 20, 2021. The purpose of the Share Option Plan is to provide incentives and rewards to the Directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company.

Pursuant to the Consultation Conclusions, Chapter 17 of the Listing Rules has been amended to govern share award schemes and share option schemes with effect from January 1, 2023.

In light of the above, the Board is pleased to announce that it has resolved on April 28, 2023 in relation to the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan in order to bring in line with the Amended Rules.

The Directors propose to seek approval from the Shareholders at the AGM for certain amendments to be made to the 2020 Restricted Share Unit Scheme and the Share Option Plan to, among other, bring the 2020 Restricted Share Unit Scheme and the Share Option Plan in alignment with the Amended Rules and make certain housekeeping amendments to the 2020 Restricted Share Unit Scheme and the Share Option Plan for the purpose of clarifying existing practice and making consequential amendments. The proposed amendments to the 2020 Restricted Share Unit Scheme shall apply to the RSUs to be granted under the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan shall apply to the Options to be granted under the Share Option Plan with effect from the date of the AGM.

PROPOSED AMENDMENTS TO THE 2020 RESTRICTED SHARE UNIT SCHEME

(A) Provisions of the 2020 Restricted Share Unit Scheme

The key changes entailed by the proposed amendments to the 2020 Restricted Share Unit Scheme are set out below:

- (a) to amend the definition of the Participants as (i) any Employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity and (ii) any Service Provider;
- (b) to require the Trustee to abstain from voting on matters that require Shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given;

- (c) to specify that initially and subject to otherwise determined by the Board/Chairman (as the case may be) at its/his absolute discretion at the relevant time for each individual grant of RSUs, a Grantee is not required to pay any grant or purchase price or make any other payment to the Company to accept the RSUs granted pursuant to the 2020 Restricted Share Unit Scheme;
- (d) to specify the clawback mechanism that in the case that a Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements, all unvested RSUs of such Participant shall automatically lapse;
- (e) to specify that where the Company cancels Awards granted to a Participant, and makes a new grant to the same Participant, such new grant may only be made under a scheme with available scheme mandate limit approved by shareholders as referred to in Rule 17.03B or Rule 17.03C of the Listing Rules, such Awards cancelled will be regarded as utilized for the purpose of calculating the scheme limit of the 2020 Restricted Share Unit Scheme and that the total number of shares which may be issued in respect of all options and awards to be granted under all of the Share Schemes under the scheme mandate as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the refreshed scheme mandate;
- (f) to include a Service Provider Sublimit of not exceeding 0.5% of the number of Shares in issue as at the Amendment Date to all Share Schemes (which include the 2020 Restricted Share Unit Scheme);
- (g) to include a scheme mandate limit of not exceeding 10% of the number of Shares in issue as at the adoption date of the 2020 Restricted Share Unit Scheme to all Share Schemes (which include the 2020 Restricted Share Unit Scheme);
- (h) to require Shareholders' approval for refreshment of scheme limit of the 2020 Restricted Share Unit Scheme after three years from the date of Shareholders' approval for the last refreshment (or the Amendment Date);
- (i) to require independent Shareholders' approval for refreshment of scheme limit of the 2020 Restricted Share Unit Scheme within a three-year period from the date of Shareholders' approval for the last refreshment (or the amendment date of the 2020 Restricted Share Unit Scheme);
- (j) to require approval by the Shareholders for grant of RSUs to a Director (other than an independent non-executive Directors) or chief executive of the Company, or any of their respective associates, if the maximum number of Shares which may be issued and to be issued in respect of all RSUs and awards granted under the Share Schemes (which includes the 2020 Restricted Share Unit Scheme) in any 12-month period will exceed 0.1% of the Shares in issue;

- (k) to require approval by the Shareholders for grant of RSUs to a substantial Shareholder, or any of their respective associates, if the maximum number of Shares which may be issued and to be issued in respect of all RSUs, options and awards granted under the Share Schemes (which includes the 2020 Restricted Share Unit Scheme) in any 12-month period will exceed 0.1% of the Shares in issue;
- (l) to include a minimum vesting period of not less than 12 months or such other period as the Listing Rules may prescribe or permit;
- (m) to specify that the 2020 Restricted Share Unit Scheme does not provide for any performance target that must be achieved before the Award(s) can be vested;
- (n) to specify that the Board may at any time at their absolute discretion cancel any Award granted but not vested and where the Company cancels Awards and new Awards are to be issued to the same Grantee, the issue of such new Awards may only be made under the 2020 Restricted Share Unit Scheme with available scheme limit of the 2020 Restricted Share Unit Scheme;
- (o) to require approval by the Shareholders for any alterations to the terms and conditions of the 2020 Restricted Share Unit Scheme which are of a material nature or any alterations to the provisions of the 2020 Restricted Share Unit Scheme relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Participants must be approved by Shareholders in general meeting;
- (p) to specify the adjustment of the purchase price (if any) and/or the number of Shares subject to Awards granted under the 2020 Restricted Share Unit Scheme in the event of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital;
- (q) to require amended terms of the 2020 Restricted Share Unit Scheme or the RSUs to comply with the relevant requirements of Chapter 17 of the Listing Rules;
- (r) to require approval by the Shareholders for any change to the authority of the Directors, the Trustee or Administrative Committee to alter the terms of the 2020 Restricted Share Unit Scheme;
- (s) to require the Company to provide to all Participants details relating to amendments in the terms of the 2020 Restricted Share Unit Scheme during the life of the 2020 Restricted Share Unit Scheme immediately upon such amendments taking effect; and
- (t) to include other housekeeping amendments for the purpose of making consequential amendments in line with the proposed amendments to the 2020 Restricted Share Unit Scheme, and to better align the wording with that of the Amended Rules.

The provisions of the 2020 Restricted Share Unit Scheme have clearly stated that it is to recognize the contributions by the Participants with an opportunity to acquire a proprietary interest in the Company, which will align their interest with the Group's, incentivizing them to maximize the value of the Company for the benefits of both the Participants and the Company. The Board and the Chairman are of the view that the discretion in determining the eligibility of Participants and vesting schedule gives the Company more flexibility to provide higher incentives to the Participants, which is in line with the purpose of the 2020 Restricted Share Unit Scheme.

(B) Service Provider Sublimit

As at the date of this announcement, there were 1,015,238,417 Shares in issue. Subject to the passing of the resolution approving the amendments to the 2020 Restricted Share Unit Scheme and on the basis that no further Shares are issued or purchased before the AGM, the Company will be allowed to issue a maximum of 5,076,192 Shares to the Service Providers under Share Schemes of the Group, representing approximately 0.5% of the number of issued Shares as at the date of passing of the Shareholders' resolution in relation to the amendments to the 2020 Restricted Share Unit Scheme.

The basis for determining the Service Provider Sublimit includes (i) the potential dilution effect arising from grants to the Service Providers, (ii) the importance of striking a balance between achieving the purpose of the Share Schemes and protecting the Shareholders from the dilution effect from granting a substantial amount of awards and options to the Service Providers, (iii) the expected contribution to the development and growth of the Company attributable to the Service Providers. Given the above, the Board considers that the Service Provider Sublimit would not lead to an excessive dilution of shareholding of the existing Shareholders.

Considering that there are no other share schemes over new Shares other than the 2020 Restricted Share Unit Scheme and Share Option Plan, the Group's hiring practice and organizational structures and that the Service Providers have contributed to the long term growth of the business of the Group, the Directors (including the independent non-executive Directors) are of the view that, despite the Company did not grant any share options or award shares to its Service Providers in the past, the Service Provider Sublimit is appropriate and reasonable given the nature of the innovation-driven industry and the Group's business needs, and such limit provides the Group with flexibility to provide equity incentives (instead of expending cash resources in the form of monetary consideration) to reward and collaborate with persons who are not employees or officers of the Group, but who may have exceptional expertise in their field or who may be able to provide valuable expertise and services to the Group, which is in line with the purpose of the 2020 Restricted Share Unit Scheme.

As at the date of this announcement, the Company has not identified any proposed Grantees for the coming 12 months including those who may require the approval by the Shareholders in the AGM pursuant to this circular pursuant to Rule 17.04 of the Listing Rules.

As at the date of this announcement, none of the Directors is a trustee of the 2020 Restricted Share Unit Scheme or has any direct or indirect interest in the trustees of the 2020 Restricted Share Unit Scheme, if any. As at the date of this announcement, to the best knowledge of the Directors and having made all reasonable enquiries, no Shareholder has any material interest in the 2020 Restricted Share Unit Scheme. As such, no Shareholder is required to abstain from voting on the resolution in relation thereto.

PROPOSED AMENDMENTS TO THE SHARE OPTION PLAN

(A) Provisions of the Share Option Plan

The key changes entailed by the proposed amendments to the Share Option Plan are set out below:

- (a) to amend the definition of the Eligible Participants as (i) any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity, and (ii) any Service Provider who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group;
- (b) to require Shareholders' approval for refreshment of scheme limit of the Share Option Plan after three years from the date of Shareholders' approval for the last refreshment (or the Amendment Date) and specify that the total number of shares which may be issued in respect of all options and awards to be granted under all of the Share Schemes under the scheme mandate as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the refreshed scheme mandate;
- (c) to require independent Shareholders' approval for refreshment of scheme limit of the Share Option Plan within a three-year period from the date of Shareholders' approval for the last refreshment (or the amendment date of the Share Option Plan);
- (d) to include a Service Provider Sublimit of not exceeding 0.5% of the number of Shares in issue as at the Amendment Date to all Share Schemes (which include the Share Option Plan);
- (e) to include a scheme mandate limit of not exceeding 10% of the number of Shares in issue as at the adoption date of the Share Option Plan to all Share Schemes (which include the Share Option Plan);

- (f) to specify that where the Company cancels Options granted to an Eligible Participant, and makes a new grant to the same Eligible Participant, such new grant may only be made under a scheme with available scheme mandate limit approved by shareholders as referred to in Rule 17.03B or Rule 17.03C of the Listing Rules, such Options cancelled will be regarded as utilized for the purpose of calculating the scheme limit of the Share Option Plan;
- (g) to require approval by the Shareholders for grant of Options to Director, chief executive of the Company or substantial Shareholder;
- (h) to require approval by the Shareholders for grant of Options to a substantial Shareholder, or any of their respective associates, if the maximum number of Shares which may be issued and to be issued in respect of all Options, options and awards granted under the Share Schemes (which includes the Share Option Plan) in any 12-month period will exceed 0.1% of the Shares in issue;
- (i) to include a minimum vesting period of not less than 12 months or such other period as the Listing Rules may prescribe or permit;
- (j) to specify that the Share Option Plan does not provide for any performance target that must be achieved before the Award(s) can be vested;
- (k) to specify the clawback mechanism that in the case that an Eligible Participant commits a misconduct or is involved in a material misstatement in the Company's financial statements, all Options of such Eligible Participant shall automatically lapse;
- (l) to require approval by the Shareholders for any alterations to the terms and conditions of the Share Option Plan which are of a material nature or any alterations to the provisions of the Share Option Plan relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Eligible Participants must be approved by Shareholders in general meeting;
- (m) to require amended terms of the Share Option Plan or the Options to comply with the relevant requirements of Chapter 17 of the Listing Rules;
- (n) to require approval by the Shareholders for any change to the authority of the Directors, or Administrative Committee to alter the terms of the Share Option Plan;
- (o) to require the Company to provide to all Eligible Participants details relating to amendments in the terms of the Share Option Plan during the life of the Share Option Plan immediately upon such amendments taking effect; and
- (p) to include other housekeeping amendments for the purpose of making consequential amendments in line with the proposed amendments to the Share Option Plan, and to better align the wording with that of the Amended Rules.

The provisions of the Share Option Plan have clearly stated that it is to provide incentives and rewards to the directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company, which will align the interests of the Eligible Participants directly to the Shareholders through ownership of Shares. The Board and the Chairman are of the view that the discretion in determining the eligibility of participants, the vesting schedule and the exercise price gives the Company more flexibility to provide higher incentives to the Eligible Participants, which is in line with the purpose of the Share Option Plan.

(B) Service Provider Sublimit

As at the date of this announcement, there were 1,015,238,417 Shares in issue. Subject to the passing of the resolution approving the amendments to the Share Option Plan and on the basis that no further Shares are issued or purchased before the Annual General Meeting, the Company will be allowed to issue a maximum of 5,076,192 Shares to the Service Providers under Share Schemes of the Group, representing approximately 0.5% of the number of issued Shares as at the date of passing of the Shareholders' resolution in relation to the amendments to the Share Option Plan.

The basis for determining the Service Provider Sublimit includes (i) the potential dilution effect arising from grants to the Service Providers, (ii) the importance of striking a balance between achieving the purpose of the Share Schemes and protecting the Shareholders from the dilution effect from granting a substantial amount of awards and options to the Service Providers, (iii) the expected contribution to the development and growth of the Company attributable to the Service Providers. Given the above, the Board considers that the Service Provider Sublimit would not lead to an excessive dilution of shareholding of the existing Shareholders.

Considering that there are no other share schemes over new Shares other than the 2020 Restricted Share Unit Scheme and Share Option Plan, the Group's hiring practice and organizational structures and that the Service Providers have contributed to the long term growth of the business of the Group, the Directors (including the independent non-executive Directors) are of the view that, despite the Company did not grant any share options or award shares to its Service Providers in the past, the Service Provider Sublimit is appropriate and reasonable given the nature of the innovation-driven industry and the Group's business needs, and such limit provides the Group with flexibility to provide equity incentives (instead of expending cash resources in the form of monetary consideration) to reward and collaborate with persons who are not employees or officers of the Group, but who may have exceptional expertise in their field or who may be able to provide valuable expertise and services to the Group, which is in line with the purpose of the Share Option Plan.

As at the date of this announcement, the Company has not identified any proposed Grantees for the coming 12 months including those who may require the approval by the Shareholders in the AGM pursuant to this circular pursuant to Rule 17.04 of the Listing Rules.

SHAREHOLDERS' APPROVAL

Pursuant to the Amended Rules, alterations to the terms and conditions of the 2020 Restricted Share Unit Scheme and Share Option Plan, which are of a material nature, must be approved by the Shareholders by way of ordinary resolutions in a general meeting of the Company. As the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan are of a material nature, the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan will be subject to, among others, Shareholders' approval.

The AGM will be convened and held in due course to consider and, if thought fit, approve the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan. A circular of the Company containing, among others, (i) details of the proposed amendments to the 2020 Restricted Share Unit Scheme; (ii) details of the proposed amendments to the Share Option Plan; and (iii) a notice convening the AGM is expected to be dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

As of the date of this announcement, the proposed amendments to the 2020 Restricted Share Unit Scheme and the proposed amendments to the Share Option Plan remain subject to the approval of the Shareholders. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

“2020 Restricted Share Unit Scheme”	a restricted share unit scheme of the Company adopted on May 15, 2020 as amended from time to time
“Administrative Committee”	the committee comprising of any two executive Directors from time to time
“AGM”	the annual general meeting of the Company to be held on Monday, May 22, 2023, or any adjournment thereof
“Amended Rules”	the amendments to the Listing Rules relating to share schemes of listed issuers, which took effect on 1 January 2023 pursuant to the Consultation Conclusions
“Amendment Date”	the date on which the amendments to the 2020 Restricted Share Unit Scheme and the amendments to the Share Option Plan approved by the Shareholders
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“associated company(ies)”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“Award”	means an award of RSUs granted to a Participant pursuant to the 2020 Restricted Share Unit Scheme
“Board”	the board of Directors
“Chairman”	the chairman of the Board
“close associates”	has the meaning ascribed to it under the Listing Rules
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board (stock code: 772)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consultation Conclusions”	consultation conclusions on the proposed amendments to listing rules relating to share schemes of listed issuers and housekeeping rule amendment published by the Stock Exchange in July 2022
“Director(s)”	the director(s) of the Company
“Eligible Participant(s)”	individual(s) or entity(ies) who may be eligible to participate under the Share Option Plan
“Employee”	an employee of any subsidiary of the Group or any Related Entity under the 2020 Restricted Share Unit Scheme
“Grantee”	in the case of the 2020 Restricted Share Unit Scheme, any Participant who accepts a grant in accordance with the terms of the 2020 Restricted Share Unit Scheme, or (where the context so permits) any person who is entitled to any Award in consequence of the death of the original Grantee; and in the case of the Share Option Plan, the Eligible Participant who accepts or is deemed to have accepted the offer of any Options in accordance with the terms of the Share Option Plan or (where the context so permits) a person entitled to any such Options in consequence of the death of the original Grantee
“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

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended 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
“Option”	the right to subscribe for a specified number of Shares in issue at the Subscription Price
“Participant(s)”	<p>in the case of the 2020 Restricted Share Unit Scheme, includes the following:</p> <ul style="list-style-type: none"> (i) any Employee (whether full time or part time) or directors (including executive, non-executive and independent non-executive directors) of any subsidiary of the Group or any Related Entity; and (ii) any Service Provider <p>who, in the sole opinion of the Board, has contributed or will contribute to the growth and development of the Group and qualifies by in the interests of the long term growth of the Group</p>
“Related Entity”	the holding companies, fellow subsidiaries or associated companies of the Company
“RSU(s)”	means a restricted share unit conferring the Grantee a conditional right upon vesting of the Award to obtain, as determined by the Board or the Chairman (as the case may be), either a Share or an equivalent value in cash with reference to the market value of a Share on the date on which such Share is sold as determined by the Trustee in its absolute discretion, less any tax, fees, levies, stamp duty and other charges applicable
“Service Provider”	any person who provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group. For the avoidance of doubt, Service Providers should exclude placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions. They should also exclude professional service providers such as auditors or valuers who provide assurance, or are required to perform their services with impartiality and objectivity

“Share Option Plan”	the share option plan for Eligible Participants which was adopted by the Shareholders on May 24, 2021 as amended from time to time
“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)
“Share Scheme(s)”	share award scheme(s) and/or share option scheme(s) involving issuance of new Shares adopted and to be adopted by the Company from time to time, including the 2020 Restricted Share Unit Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of Options calculated in accordance with the Share Option Plan
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Trustee(s)”	means any person(s) who is/are officially appointed by the Board as the trustee or trustees from time to time to administer this Scheme.
“%”	per cent

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

Hong Kong, April 28, 2023

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.