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If you have sold or transferred all your shares in Maoyan Entertainment, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Maoyan Entertainment

貓眼娛樂

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1896)

**PROPOSAL FOR
ENTERING INTO CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
The Independent Board Committee and Independent Shareholders**



A notice convening the Extraordinary General Meeting of Maoyan Entertainment to be held at No. 3 Building, Yonghe Hangxing Garden, No. 11 Hepingli East Street, Dongcheng District, Beijing, the PRC on Tuesday, November 1, 2022 at 2:00 p.m. is set out on pages 45 to 47 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.maoyan.com), respectively. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting or any adjournment thereof if they so wish.

October 13, 2022

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“China Films”	China Films Digital Films Development (Beijing) Co., Ltd. (中影數字電影發展(北京)有限公司), a limited liability company incorporated in the PRC;
“China Literature”	China Literature Limited (閱文集團), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange (stock code: 772);
“China Literature CCTs”	the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement;
“China Literature Group”	China Literature, its subsidiaries and its consolidated affiliated entities from time to time;
“Company”	Maoyan Entertainment, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange (stock code: 1896);
“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;
“Entertainment Content Investment and Production Cooperation Framework Agreement”	a framework agreement entered into between the Company (for itself and on behalf of the Group) and Shanghai Yueting (for itself and on behalf of China Literature Group) on August 18, 2022, pursuant to which the Group and China Literature Group cooperate in joint investment for the production of movies;

DEFINITIONS

“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at No. 3 Building, Yonghe Hangxing Garden, No. 11 Hepingli East Street, Dongcheng District, Beijing, the PRC on Tuesday, November 1, 2022 at 2:00 p.m. or any adjournment thereof and notice of which is set out on pages 45 to 47 of this circular;
“Group”	the Company and its subsidiaries and consolidated affiliated entities, from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huaxia”	Huaxia Film Distribution Co., Ltd. (華夏電影發行有限責任公司), a limited liability company incorporated in the PRC;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Wang Hua, Mr. Chan Charles Sheung Wai, Mr. Yin Hong and Ms. Liu Lin, to advise the independent Shareholders in respect of the proposed China Literature CCTs (including the proposed annual caps for each of the three years ending December 31, 2024);
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the independent Shareholders in relation to the China Literature CCTs and the transactions contemplated thereunder;
“Independent Shareholders”	means the Shareholders (other than Image Flag Investment (HK) Limited, which is wholly-owned by Tencent);
“Independent Third Party(ies)”	any entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules;

DEFINITIONS

“Latest Practicable Date”	October 10, 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing”	listing of the ordinary Shares of the Company on the Stock Exchange on February 4, 2019;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Movies Promotion and Distribution Framework Agreement”	a framework agreement entered into between the Company (for itself and on behalf of the Group) and Shanghai Yueting (for itself and on behalf of China Literature Group) on August 18, 2022, pursuant to which each of the Group and China Literature Group agreed to provide the movies promotion and distribution services to the other party;
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time;
“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, a direct wholly-owned subsidiary of China Literature;
“Shareholder(s)”	holder(s) of the share(s) of the Company;
“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 company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board (stock code: 700); and
“%”	per cent.

LETTER FROM THE BOARD



Maoyan Entertainment

貓眼娛樂

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1896)

Executive Director:

Mr. Zheng Zhihao (*Chief Executive Officer*)

Non-executive Directors:

Mr. Wang Changtian (*Chairman*)

Ms. Li Xiaoping

Ms. Wang Jian

Mr. Cheng Wu

Mr. Chen Shaohui

Mr. Lin Ning

Mr. Tang Lichun, Troy

Independent Non-executive Directors:

Mr. Wang Hua

Mr. Chan Charles Sheung Wai

Mr. Yin Hong

Ms. Liu Lin

Registered office:

Walkers Corporate Limited

190 Elgin Avenue

George Town

Grand Cayman KY1-9008

Cayman Islands

Head office and principal

place of business in China:

No. 3 Building, Yonghe Hangxing Garden

No. 11 Hepingli East Street

Dongcheng District

Beijing, PRC

Principal place of business

in Hong Kong:

40th Floor, Dah Sing Financial Centre

No. 248 Queen's Road East

Wanchai, Hong Kong

October 13, 2022

To the Shareholders

Dear Sir or Madam,

**PROPOSAL FOR
ENTERING INTO CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolutions to be proposed at the EGM in relation to, entering into the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement, including:

- the particulars of entering into of the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement (including the proposed annual caps for each of the three years ending 31 December 2024);

LETTER FROM THE BOARD

- the letter from the Independent Board Committee with their view on the entering into of the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement (including the proposed annual caps for each of the three years ending 31 December 2024); and
- the letter from the Independent Financial Adviser with their view on the entering into of the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement (including the proposed annual caps for each of the three years ending 31 December 2024) to the Independent Board Committee and the Independent Shareholders.

ENTERING INTO CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated August 18, 2022, in relation to, among other things, the entering into of the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement.

On August 18, 2022, the Company (for itself and on behalf of the Group) and Shanghai Yueting (for itself and on behalf of China Literature Group) entered into (i) the Entertainment Content Investment and Production Cooperation Framework Agreement, pursuant to which the Group and China Literature Group agreed to cooperate in joint investment for the production of movies, and (ii) the Movies Promotion and Distribution Framework Agreement, pursuant to which each of the Group and China Literature Group agreed to provide the movies promotion and distribution services to the other party, subject to the Shareholders' approval.

1. Entertainment Content Investment and Production Cooperation Framework Agreement

Principal terms of the Entertainment Content Investment and Production Cooperation Framework Agreement are set out below:

Date	August 18, 2022
Parties	(a) Company (for itself and on behalf of the Group); and (b) Shanghai Yueting (for itself and on behalf of China Literature Group)
Term	From August 18, 2022 to December 31, 2024

LETTER FROM THE BOARD

Subject Matter

The Group and China Literature Group agreed to cooperate with each other in the joint investment for the production of movies.

Payment

Separate underlying agreements and other collateral agreements will be entered into which will set out the precise investment amounts, investment proportion, investment return distribution, payment method and other details of the arrangements in the manner provided in the Entertainment Content Investment and Production Cooperation Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on a fair and reasonable basis after arm's length negotiation between relevant parties taking into account various factors such as resources contribution (including intellectual property rights), and financial commitments (including investment amounts, other costs and expenses incurred, etc.).

Pricing policies

Both parties have agreed that the investment amounts, investment proportion and revenue/profit sharing mechanism for each definitive agreement that will be entered into pursuant to the Entertainment Content Investment and Production Cooperation Framework Agreement will be determined on a case-by-case basis and on a fair and reasonable basis with reference to factors such as evaluation of the prospects of the content, ownership of the copyrights, costs and expenses involved in the development, resources available for the production process and the box office guarantee arrangement (if any). Generally, unless otherwise agreed by the parties, the Group's investment return (being the portion out of the total returns generated by the jointly invested entertainment content) shall be determined with reference to the Group's investment proportion and the total investment amount contributed by the Group. Prior to entering into any definitive agreement pursuant to the Entertainment Content Investment and Production Cooperation Framework Agreement and/or making the relevant joint investment, the Group (including the committee comprises of our senior management and relevant department heads) will assess the project including details of the subject movie such as director (if confirmed), main cast (if confirmed), draft script, expected releasing date, estimated total budget, proposed revenue/profit sharing mechanism, investment amount, settlement terms, investment proportion, film copyright issues, distribution rights, and other general clauses including confidentiality and transferability. Unlike standard product, each movie has its own special characteristics and value, the Group will consider various factors including factors mentioned above as well as the detailed terms including revenue/profit sharing mechanism of other projects in which the Group has invested recently prior to making the investment decisions. Movie investment is one of the principal business of the Group, with approximately 20 movies invested by the Group each year for the three years

LETTER FROM THE BOARD

ended December 31, 2021, the Group is fully aware of the market practice. The Group will compare the proposed revenue/profit sharing mechanism against the terms proposed by at least two investors of the subject movie which are Independent Third Party (if applicable), and will only enter into definitive agreements and invest in relevant entertainment content when the revenue/profit sharing mechanism is in line with or more advantageous to us than the mechanism offered by other comparable existing or potential subject movie investors (if any), and entering into the definitive agreement is in the best interest of the Company and the Shareholders as a whole.

Historical amount

There is no historical amount under the entertainment content investment and production cooperation transaction with China Literature Group upon Listing.

Proposed Annual Caps and Basis of Determination

In respect of the Entertainment Content Investment and Production Cooperation Framework Agreement, the proposed annual caps are set out in the table below:

	From August 18, 2022 to December 31, 2022 (RMB'000)	For the year ending December 31, 2023 (RMB'000)	For the year ending December 31, 2024 (RMB'000)
Total investment to be contributed by the Group under the Entertainment Content Investment and Production Cooperation Framework Agreement	313,000	381,000	502,000

The above annual caps for the three years ending December 31, 2024 were determined with reference to:

- (a) considering (i) the impact of Covid-19 during the first half of 2022 over the entertainment industry such as the low operation rate of cinemas during 1H2022 and delayed releasing schedule of a series of movies which resulted in delayed movies investment plan across the industry to certain extent; and (ii) the expected resume of the industry during the second half of 2022, in particularly, the major seasons including Christmas and New Year's Eve, after preliminary discussion with China Literature Group, the Group currently expects to focus on investing in more movies during the second half of 2022 which is around 8-12 movies following the approval from the Board and Shareholders, as the case may be. As of the Latest Practicable Date, the Group and China Literature Group has preliminarily agreed on joint investment in two movies, the potential investment amount of which contributed by

LETTER FROM THE BOARD

the Group is approximately RMB200 million. Subject to releasing schedule of the subject movies, the investment in these two subject movies is currently expected to be completed within 2022, and the parties expect to jointly invest in more movies within 2022.

- (b) based on preliminary discussion with China Literature Group, the investment amount made by our Group in one movie is expected to range from approximately RMB8.0 million to RMB280.0 million, which is consistent with our past movie investment practice. The Group currently expects that the investment amount per movie contributed by the Group to the majority of movies to be jointly invested by the Group and China Literature Group will be in tens of millions RMB or more.
- (c) an estimated growth rate of approximately 20%-35% for the annual caps for each of the two years ending December 31, 2024 with reference to factors including (i) increasing project scale of the subject movies with the further deepen and enhanced cooperation relationship between the Group and China Literature Group, in particularly, subject to market conditions and other factors including draft script and main cast, parties intend to jointly invest in certain high-budget tentpole movie projects in 2023 and/or 2024; (ii) based on the content reserve of the Group and China Literature Group, parties expect to invest in more high-quality movies under the Entertainment Content Investment and Production Cooperation Framework Agreement; (iii) the increasing cost and expense involved in production of one high-quality movie along with the development of the industry; (iv) the anticipated growth of the film market in China taking into consideration a number of policy or guidance supports such as the 14th Five Year Plan for the Development of Chinese Films (《“十四五”中國電影發展規劃》); and (v) the continued expansion of the movies production business of the Group and China Literature Group.

The above information is estimated by the Company for the purpose of arriving at the annual cap amounts for the investment under the Entertainment Content Investment and Production Cooperation Framework Agreement for the relevant periods, which is subject to change upon implementation of the relevant business plan of the Group and China Literature Group.

LETTER FROM THE BOARD

Reasons for and Benefits from the Transaction

We participate in movies production to capitalize on the success of such movies. Due to the capital requirements involved in the production of movies, it is a general market practice in the industry for one movie to involve a number of investors and several investors and producers to make co-investment in movie production. In addition, co-production creates synergies through the pooling of different producers' resources and expertise in different aspects, which would facilitate the whole process of the movie production. China Literature Group is primarily engaged in online literature and IP incubation businesses and its subsidiary, New Classics Media Holdings Limited, is a renowned film and TV drama series production house in PRC. The cooperation through investment by China Literature Group and the Group has been, and is expected to remain, a mutually beneficial arrangement. Leveraging market position and extensive investment experience of China Literature Group in the relevant field, and the Group's data insights of consumer preferences and promotion and distribution capabilities, it is expected that the parties can enjoy competitive advantages through the cooperation.

2. Movies Promotion and Distribution Framework Agreement

Principal terms of the Movies Promotion and Distribution Framework Agreement are set out below:

Date	August 18, 2022
Parties	(a) Company (for itself and on behalf of the Group); and (b) Shanghai Yueting (for itself and on behalf of China Literature Group)
Term	From August 18, 2022 to December 31, 2024
Subject Matter	(a) Provision of Movies Promotion and Distribution Services by the Group to China Literature Group <ul style="list-style-type: none">• Movies promotion services: the Group will plan and coordinate various online or offline marketing and promotional activities, including but not limited to conducting movies marketing and publicity campaigns, such as organizing fans gatherings and road shows;

LETTER FROM THE BOARD

- Movies distribution services: the Group will coordinate the distribution of marketing materials, configure marketing strategies and release plans, negotiate with cinemas and cinema managers regarding release schedule, and monitor box office performance and market feedback of movies.

(b) Provision of Movies Promotion and Distribution Services by China Literature Group to the Group

- Movies promotion services: China Literature Group will plan and coordinate various online or offline marketing and promotional activities, including but not limited to conducting movies marketing and publicity campaigns, such as organizing fans gatherings and road shows;
- Movies distribution services: China Literature Group will coordinate the distribution of marketing materials, configure marketing strategies and release plans, negotiate with cinemas and cinema managers regarding release schedule, and monitor box office performance and market feedback of movies.

Payment

Separate underlying agreements will be entered into which will set out the precise scope of services, service fees, payment method and other details of the service arrangement in the manner provided in the Movies Promotion and Distribution Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties taking into account various factors such as the prospects of relevant movies, and a party's resources contribution, costs and expenses incurred in providing such promotion and distribution services.

LETTER FROM THE BOARD

Pricing policies

(a) *Provision of movies promotion and distribution services by the Group to China Literature Group*

The fees for services contemplated under the Movies Promotion and Distribution Framework Agreement will be determined on a case-by-case basis and on a fair and reasonable basis, in particular, (1) the service fees for movie promotion services will be determined by taking into account the Group's resources contribution to the promotion services. For offline resources, the service fees will be determined by the actual costs and expenses for preparing relevant publicity campaigns plus reasonable profits which normally will not exceed 8% in line with the pricing for similar services provided to Independent Third Parties by the Group and market rate, while the service fees for using online resources will be calculated by the unit prices of different online publicity resources multiplied by the frequency of such resources are used. The unit prices of each online publicity resources will be determined with reference to the then prevailing market rates. As a leading promoter and distributor of domestic movies, the Group provides promotion and distribution services for a number of movies each year, for example, the Group provided promotion and distribution services for over 40 movies in total that were released during the year ended December 31, 2021, which represents that the Group is fully aware of the market rates of the online public resources and market rates of profits for the offline resources, and will compare the pricing of comparable services provided to at least two Independent Third Parties before entering into any definitive agreement, to ensure the continuing connected transactions would be conducted under normal commercial terms and on terms which are similar or comparable with Independent Third Parties; and (2) the service fees for movie distribution service will either be: (i) a predetermined fixed amount with reference to the expected revenue agreed by both parties; (ii) calculated based on the box office of movies in accordance with the following formula: distribution service fees = revenue-sharing box office * distribution service fees rate, or (iii) calculated based on the non-theatrical distribution contract in accordance with the following formula: distribution service fees = revenue generated from non-theatrical distribution * distribution service fees rate.

Note: The revenue-sharing box office refers to the box office of the movie distributed after deduction of value-added tax, National Film Development Fund Contribution, the revenue distribution to cinemas and the service fees payable to China Films or Huaxia (as the case may be). The value-added tax and National Film Development Fund Contribution represent a fix percentage of the box office, while the revenue distribution to cinemas shall represent an agreed proportion of net box office, which equals to the box office after deduction of value-added tax and National Film Development Fund Contribution, to be paid to cinemas. The service fees payable to China Films or Huaxia (as the case may be) shall be determined in accordance with the distribution contracts to be entered into by and between the distributor and China Films or Huaxia (as the case may be).

Prior to entering into any definitive agreement pursuant to the Movies Promotion and Distribution Framework Agreement, we will assess and compare the fee structure and pricing terms (if applicable) proposed by China Literature Group with the prevailing market rates. We will only enter into definitive agreements in respect of movies promotion and distribution services with China Literature Group when the fee structure and pricing terms, as a whole, is in line or better than the prevailing market rates and the definitive agreement is in the best interest of the Company and our Shareholders as a whole.

LETTER FROM THE BOARD

(b) Provision of Movies Promotion and Distribution Services by China Literature Group to the Group

The service fees for movie promotion services will be determined on a case-by-case basis and on a fair and reasonable basis by taking into account the type, estimated costs and market price of the resources contributed by China Literature Group, the total budget for the movies promotion services etc.

In respect of the service fees for movies distribution, the pricing policies are substantially the same as those under which we provide movie distribution services to China Literature Group.

Historical amount

Upon Listing, the movies promotion and distribution services provided by the Group to China Literature Group has incurred an amount of approximately RMB1,000,000, RMB300,000 and RMB300,000 for the years ended December 31, 2019 and 2021, and the six months ended June 30, 2022, respectively. There is no other historical amount in respect of movies promotion and distribution transaction with China Literature Group.

Proposed Annual Caps and Basis of Determination

In respect of the Movies Promotion and Distribution Framework Agreement, the proposed annual caps are set out in the table below:

	From August 18, 2022 to December 31, 2022 (RMB'000)	For the year ending December 31, 2023 (RMB'000)	For the year ending December 31, 2024 (RMB'000)
Amount of movies promotion and distribution service fees to be paid by China Literature Group to the Group	184,353	214,543	248,584
Amount of movies promotion and distribution service fees to be paid by the Group to China Literature Group	13,703	18,784	22,324

LETTER FROM THE BOARD

(a) Provision of movies promotion and distribution services by the Group to China Literature Group

The above annual caps were determined with reference to factors including (i) The Group and China Literature Group have established a long-term and stable business relationship in respect of movies promotion and distribution service, and the Group has acquired a comprehensive understanding of the requirements of China Literature Group; (ii) considering the impact of Covid-19 during the first half of 2022 over the entertainment industry and the expected resume of the industry during the second half of 2022, in particularly, the major seasons including Christmas and New Year's Eve, and after preliminary discussion with China Literature Group, we anticipate that China Literature Group will engages us to provide promotion and distribution services for approximately 6 movies during the second half of 2022 following the approval from the Board and Shareholders as the case may be; and (iii) an estimated growth rate of approximately 15%-20% for the annual caps for each of the two years ending December 31, 2024 with reference to (a) with its development in movies industry, China Literature expects to engage the Group to provide more movies promotion and distribution services to cater for more and more movies in which it acts as a producer and is entitled to engagement of such service vendor; (b) the expected increasing scale of the subject movies and the increasing cost involved in the promotion and distribution of such movies; and (c) the improvement of the Group's promotion and distribution capability and the diversity of the movies promoted and distributed by the Group.

(b) Provision of movies promotion and distribution services by China Literature Group to the Group

The above annual caps were determined with reference to factors including (i) considering the well-founded business relationship between the Group and China Literature Group as well as the Group's understanding of the movies distribution and promotion capability and resources of China Literature Group, the Group expects to engage China Literature Group to provide more and more movies promotion and distribution services under the Movies Promotion and Distribution Framework Agreement; (ii) based on our business plan and considering the impact of Covid-19 during the first half of 2022 over the entertainment industry and the expected resume of the industry during the second half of 2022, in particularly, the major seasons including Christmas and New Year's Eve, the Group expects to engage China Literature Group to provide promotion and distribution services for approximately 2 movies during the second half of 2022; and (iii) an estimated growth rate of approximately 15%-40% for the annual caps for each of the two years ending December 31, 2024 with reference to (a) the expected increasing project scale as well as the cost involved in the promotion and distribution of movies; (b) the increasing number of subject movies based on content reserve of the Group as well as the adaptability of resources and capabilities of China Literature Group; and (c) as the collaboration with China Literature Group continues, we may continue to broaden the scope of collaboration of movies promotion and distribution services provided by China Literature Group.

LETTER FROM THE BOARD

The above information is estimated by the Company for the purpose of arriving at the annual cap amounts for the investment under the Movies Promotion and Distribution Framework Agreement for the relevant periods, which is subject to change upon implementation of the relevant business plan of the Group and China Literature Group.

Reasons for and Benefits from the Transaction

China Literature Group is an active player in the movies production industry in the PRC and is engaged in the production of high-quality movies, which has demand for movies promotion and distribution services. The Group provides diversified services and valuable industry insights in China's pan-entertainment industry, and is able to continuously offer a unique, intelligent one-stop solution for promotion and distribution across the entire industry value chain.

China Literature Group is an active player in the movie production industry in the PRC who promotes a large number of high-quality movies. Its strong control on movies it produced enables it to move downstream and develop its movie promotion and distribution business. As the Group continued to cultivate the production of movies, further consolidate its own IP and strive to become a producer of high-quality contents, it is expected that China Literature Group will continue providing movie promotion and distribution services to the Group.

INFORMATION RELATING TO PARTIES

The Group is a leading "technology + pan-entertainment" service provider in China, offering online entertainment ticketing services, entertainment content services, and advertising services and others.

China Literature is primarily 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 China Literature 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.

INTERNAL CONTROL

In order to ensure that the terms under relevant framework and definitive agreements for the continuing connected transactions are fair and reasonable, or no less favourable than terms available to or from Independent Third Parties, comply with the annual caps and pricing policies under relevant framework agreements, and are carried out under normal commercial terms, the Company has adopted the following internal control procedures:

- (a) the Company has adopted and implemented a management system on connected transactions. The Board and various other internal departments of the Company including but not limited to the finance department and compliance and legal department are jointly responsible for evaluating the terms under framework and definitive agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement, the

LETTER FROM THE BOARD

management of the Company also reviews the pricing policies of the framework agreements annually. In addition, various other internal departments of the Company monitor the fulfilment status and the transaction updates under the framework agreement as necessary from time to time including checking market price for relevant services at least quarterly based on Group's previous experience on the pricing fluctuation over the markets, to ensure the continuing connected transactions would be conducted under normal commercial terms and on terms which are similar or comparable with Independent Third Parties. The reporting team (the "**Reporting Team**") within the finance department is responsible for monitoring the transaction amounts of the continuing connected transactions to ensure that the annual caps under the framework agreements are complied with, and that any definitive agreement under the relevant framework agreements shall be entered into by the Company with the prior approval of the Reporting Team.

- (b) the independent non-executive Directors and auditors of the Company will conduct annual review of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that in accordance with Rules 14A.55 and 14A.56 of the Listing Rules that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies; the audit committee of the Company will review the Company's financial controls, risk management and internal control systems; and when considering any renewal or revisions to the framework agreements, the Company will then comply with the Listing Rules as applicable.
- (c) when considering fees to be provided to the Group by the connected persons and the fee to be provided to the connected persons to the Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favourable than those offered by Independent Third Parties.

LISTING RULES IMPLICATIONS

As at the date of this circular, Tencent, through its wholly-owned subsidiary, Image Flag Investment (HK) Limited held more than 10% of the total issued Shares of the Company and is one of the substantial Shareholders, and thus Tencent and its associates are connected persons of the Company. Tencent held more than 30% of the total issued shares of China Literature which held 100% equity interest in Shanghai Yueting. Therefore, China Literature and Shanghai Yueting are connected persons of the Company, and the transactions contemplated under each of the China Literature CCTs constitutes connected transactions of the Company under the chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the highest proposed annual caps under each of the China Literature CCTs, are more than 5%, the transactions contemplated thereunder are therefore subject to annual reporting, announcement, and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on page 18 of this circular, which contains its recommendation to the Independent Shareholders in relation to the China Literature CCTs and the transactions contemplated thereunder (including the proposed annual caps for each of the three years ending December 31, 2024). Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 19 to 38 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the China Literature CCTs and the transactions contemplated thereunder (including the proposed annual caps for each of the three years ending December 31, 2024), and the principal factors and reasons taken into account in arriving at its recommendation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 45 to 47 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolutions will be proposed to Shareholders to consider and approve the China Literature CCTs.

FORM OF PROXY

A form of proxy is enclosed with this circular for use at the Extraordinary General Meeting. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.maoyan.com), respectively. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and delivery of the form of proxy will not preclude the Shareholders from attending and voting at the Extraordinary General Meeting or any adjournment thereof if they so wish.

VOTING BY POLL

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the China Literature CCTs is required to abstain from voting on the relevant resolution(s) at the EGM. Given that Tencent is the controlling shareholder of China Literature, Tencent is regarded as having material interests in the China Literature CCTs and the transactions contemplated thereunder. Accordingly, Image Flag Investment (HK) Limited, which is wholly-owned by Tencent, is required to abstain from voting on the resolutions relating to the China Literature CCTs and the transactions contemplated thereunder to be proposed at the EGM.

Save as disclosed above, the Board is not aware of any other Shareholder who has any material interest that is required under the Listing Rules to abstain from voting on the aforementioned resolutions.

LETTER FROM THE BOARD

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the Extraordinary General Meeting shall therefore demand voting on all resolutions set out in the notice of Extraordinary General Meeting by way of poll pursuant to Article 72 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each Share registered in his name in the register of members of the Company. A Shareholder entitled to more than one vote needs not use all his votes or cast all the votes he uses in the same way.

RECOMMENDATION

Based on information as disclosed in this circular, the Directors (excluding the independent non-executive Directors whose view will be in the section headed “Letter from the Independent Board Committee” of this circular) consider that it is in the interests of the Company and its Shareholders as a whole to enter into the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement, the terms thereunder (including the proposed annual caps under aforementioned respective framework agreement) are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Company.

Mr. Cheng Wu, being our Director, holds directorship in China Literature Group and has therefore abstained from voting on the relevant Board resolutions approving the China Literature CCTs. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice of Gram Capital, consider that the China Literature CCTs (including the proposed annual caps for the three years ending December 31, 2024 thereunder) are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolutions in respect of the China Literature CCTs and the transactions contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2024 thereunder) at the Extraordinary General Meeting.

The Directors recommend the Independent Shareholders to vote in favor of all the ordinary resolutions to be proposed at the EGM.

Yours faithfully
By order of the Board
Maoyan Entertainment
Mr. Zheng Zhihao
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the China Literature CCTs.



Maoyan Entertainment

貓眼娛樂

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1896)

October 13, 2022

To the Independent Shareholders

Dear Sirs or Madams,

We refer to the circular dated October 13, 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in this circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the China Literature CCTs and the transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

After taking into account the advice of Gram Capital as set out in this circular, we consider that the China Literature CCTs (including the proposed annual caps for the three years ending December 31, 2024 thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the China Literature CCTs (including the proposed annual caps for the three years ending December 31, 2024 thereunder) is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the China Literature CCTs and the transaction contemplated thereunder (including the proposed annual caps for the three years ending December 31, 2024).

Yours faithfully,

The Independent Board Committee

Mr. Wang Hua

Mr. Chan Charles Sheung Wai

Mr. Yin Hong

Ms. Liu Lin

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the China Literature CCTs for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

13 October 2022

*To: The independent board committee and the independent shareholders
of Maoyan Entertainment*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the China Literature CCTs, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 13 October 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18 August 2022, the Company (for itself and on behalf of the Group) and Shanghai Yueting (for itself and on behalf of China Literature Group) entered into (i) the Entertainment Content Investment and Production Cooperation Framework Agreement, pursuant to which the Group and China Literature Group agreed to cooperate in joint investment for the production of movies; and (ii) the Movies Promotion and Distribution Framework Agreement, pursuant to which each of the Group and China Literature Group agreed to provide the movies promotion and distribution services to the other party.

With reference to the Board Letter, the China Literature CCTs constitute continuing connected transactions of the Company and are subject to the annual reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Wang Hua, Mr. Chan Charles Sheung Wai, Mr. Yin Hong and Ms. Liu Lin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the China Literature CCTs are on normal commercial terms and are fair and reasonable; (ii) whether the China Literature CCTs are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the China Literature CCTs at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to the continuing connected transactions, details of which were set out in the Company's circular dated 10 November 2021. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Management in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the

LETTER FROM GRAM CAPITAL

Management and/or the Directors, which have been provided to us. Our opinion is based on the Directors' and/or the Management's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the China Literature CCTs. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Shanghai Yueting or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the China Literature CCTs. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material change of information in this letter up to the date of the EGM. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the China Literature CCTs, we have taken into consideration the following principal factors and reasons:

Information of the Group

With reference to the Board Letter, the Group is a leading “technology + pan-entertainment” service provider in China, offering online entertainment ticketing services, entertainment content services, and advertising services and others.

LETTER FROM GRAM CAPITAL

Set out below is a summary of the consolidated financial information on the Group for the two years ended 31 December 2021 and for the six months ended 30 June 2022, as extracted from the Company’s annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2022 (the “**2022 Interim Report**”):

	For the six months ended 30 June 2022 (“1H2022”) RMB’000 (unaudited)	For the year ended 31 December 2021 (“FY2021”) RMB’000 (audited)	For the year ended 31 December 2020 (“FY2020”) RMB’000 (audited)	Year on year change %
Revenue	1,191,393	3,323,415	1,365,690	143.35
– Online entertainment ticketing services	592,299	1,713,748	756,548	126.52
– Entertainment content services (Note)	533,401	1,356,454	353,227	284.02
– Advertising services and others	65,693	253,213	255,915	(1.06)
Gross profit	622,353	1,842,231	537,334	242.85
Profit/(loss) for the period/year	151,865	368,502	(646,272)	N/A

Note: This amount included fair value loss on the Group’s investment in movie and TV series amounting to approximately RMB27.5 million, RMB87.6 million for FY2020, FY2021 respectively and fair value gain on the Group’s investment in movie and TV series amounting to approximately RMB11.1 million for 1H2022.

As illustrated in the above table, the Group’s revenue and gross profit for FY2021 substantially increased by approximately 143.35% and 242.85% respectively, as compared to that for FY2020. With reference to the 2021 Annual Report, such increases were primarily due to increases in the revenue from online entertainment ticketing services and entertainment content services driven by various factors, including the normalization of domestic epidemic control and the joint efforts of all industry participants, the significant recovery of the Chinese movie market and great box office performances.

The Group recorded profit for FY2021 as compared to loss for FY2020. With reference to the 2021 Annual Report and as confirmed by the Company, such turnaround from loss position to profit position was mainly due to substantial increase in the Group’s revenue and gross profit for FY2021 as a result of the gradual recovery of the national box office revenue in the PRC that were affected by the COVID-19 pandemic, partially offset by increase in selling and marketing expenses and income tax expenses for FY2021 as compared to those for FY2020.

LETTER FROM GRAM CAPITAL

As depicted from the above table, the Group recorded revenue and gross profit of approximately RMB1,191.4 million and RMB622.4 million for 1H2022, representing a decrease of approximately 33.80% and 40.47% respectively as compared to the corresponding period in 2021. With reference to the 2022 Interim Report, such decreases were primarily due to decrease in revenue from online entertainment ticketing services, entertainment content services and advertising services and others as affected by the volatile COVID-19 pandemic situation during 1H2022.

The Group recorded profit of approximately RMB151.9 million for 1H2022, representing a decrease of approximately 60.77% as compared to the corresponding period in 2021. With reference to the 2022 Interim Report, such decrease was primarily due to the decrease in revenue and gross profit as aforementioned, partially offset by (i) decrease in selling and marketing expenses; (ii) decrease in net impairment losses on financial assets; (iii) increase in other income; and (iv) decrease in income tax expenses.

With reference to the 2022 Interim Report, in a complex and changing market environment, the Group will continue to grow and develop within the pan-entertainment industry with the firm execution of its core strategy of “technology + pan-entertainment”. Through mining and producing high quality content with a positive social value proposition, combined with enhanced infrastructure and service capability, the Group expects to further unlock the Group’s value in the industry. Meanwhile, the Group will constantly explore new initiatives, develop diverse growth drivers and optimize its layout of pan-entertainment industrial chain. Furthermore, by further enhancing and utilizing the synergy among the Group’s business lines, the Group will be able to maintain risk resistance capabilities and capture the market growth opportunities following the industry’s recovery, further enhancing its competitive advantages.

Information of China Literature and Shanghai Yueting

With reference to the Board Letter, Shanghai Yueting (being the counterparty to the Entertainment Content Investment and Production Cooperation Framework Agreement and the Movies Promotion and Distribution Framework Agreement) is an indirectly wholly-owned subsidiary of China Literature 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.

With reference to the Board Letter, China Literature is primarily engaged in online literature and IP incubation businesses, and is a pioneer of China’s online literature market.

Reasons and benefits of the China Literature CCTs

With reference to the Board Letter, the Group participates in movies production to capitalize on the success of such movies. Due to the capital requirements involved in the production of movies, it is a general market practice in the industry for one movie to involve a number of investors and several investors and producers to make co-investment in movie production. In addition, co-production creates synergies through the pooling of different producers’ resources and expertise in different aspects, which would facilitate the whole process of the movie production.

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China Literature Group is primarily engaged in online literature and IP incubation businesses and its subsidiary, New Classics Media Holdings Limited (“**New Classics Media**”), is a renowned film and TV drama series production house in PRC. The cooperation through investment by China Literature Group and the Group has been, and is expected to remain, a mutually beneficial arrangement. Leveraging market position and extensive investment experience of China Literature Group in the relevant field, and the Group’s data insights of consumer preferences and promotion and distribution capabilities, it is expected that the parties can enjoy competitive advantages through the cooperation.

National box office revenue in the PRC (including domestic movies)

Set out below are the national box office revenue in the PRC (including domestic movies) and the box office revenue of domestic movies in the PRC during the five years ended 31 December 2021, being the latest five full-year statistics published by the Statista (Statista is specialized in market and consumer data, its platform consolidates statistical data on over 80,000 topics from more than 22,500 sources on 170 industries):

	2021	2020	2019	2018	2017
Box office revenue in the PRC (including domestic movies) (RMB billion)	47.3	20.4	64.3	61.0	55.9
Box office revenue of domestic movies in the PRC (RMB billion)	39.9	17.1	41.2	37.9	30.1

As shown in the table above, both the box office revenue in the PRC (including domestic movies) and the box office revenue of domestic movies in the PRC recorded year-on-year increase during each of the year 2018, 2019 and 2021.

The box office revenue in the PRC increased from approximately RMB55.9 billion for year 2017 to approximately RMB64.3 billion for year 2019. Despite the box office revenue in the PRC significantly decreased to approximately RMB20.4 billion for year 2020 (as a result the COVID-19 pandemic preventive measures imposed by the PRC government, such as the 75% attendance limit for cinemas and all cinemas in mainland China had been shut down for 183 days from 23 January 2020), the box office revenue in the PRC rebounded and reached approximately RMB47.3 billion for year 2021, showing signs of recovery since the outbreak of COVID-19 pandemic.

The box office revenue of domestic movies in the PRC also increased from approximately RMB30.1 billion for year 2017 to approximately RMB41.2 billion for year 2019. Despite the box office revenue of domestic movies in the PRC significant decreased to approximately RMB17.1 billion for year 2020 (as a result of the COVID-19 pandemic preventive measures imposed by the PRC government as aforementioned), the box office revenue in the PRC rebounded and reached approximately RMB39.9 billion for year 2021, showing signs of recovery since the outbreak of COVID-19 pandemic. Furthermore, the box office revenue of domestic movies in the PRC in proportion to of the box office revenue in the PRC increased from 53.85% for year 2017 to 84.36% for year 2021, representing an increase of approximately 30.51 percentage points.

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Number of cinema screens in the PRC

Set out below are the number of cinema screens in the PRC during the five years ended 31 December 2021, being the latest five full-year statistics published by the Statista:

	2021	2020	2019	2018	2017
Number of cinema screens in the PRC	82,248	75,581	69,787	60,079	50,776

As shown in the table above, the number of cinema screens in the PRC recorded year-on-year increase during each of the year 2018, 2019, 2020 and 2021. The number of cinema screens in the PRC increased from 50,776 for year 2017 to 82,248 for year 2021, representing a compound annual growth rate of approximately 12.81%.

With reference to the 14th Five Year Plan for the Development of Chinese Films 《“十四五”中國電影發展規劃》, during the 14th Five -Year, the development plans of the Chinese film market including, among other things, (i) the release of around 10 blockbuster movies per annum; (ii) achieved around 50 domestic movies that each reached the box office revenue of over RMB100 million per annum; (iii) maintain the proportion of domestic movies' box office revenue to national box office revenue at 55% or more; and (iv) the number of cinema screens exceed 100,000 by 2025.

In light of the above, we are of the view that the prospects of the movie industry are generally positive after impact of COVID-19 pandemic.

Having considered the above factors, we are of the view that the China Literature CCTs are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

Principal terms of the China Literature CCTs

A. Entertainment Content Investment and Production Cooperation Framework Agreement

Principal terms of the Entertainment Content Investment and Production Cooperation Framework Agreement are set out as follows:

Date:	18 August 2022
Parties:	(a) the Company (for itself and on behalf of the Group) (b) Shanghai Yueting (for itself and on behalf of China Literature Group)
Terms:	From 18 August 2022 to 31 December 2024

LETTER FROM GRAM CAPITAL

- Subject Matter:** The Group and China Literature Group agreed to cooperate with each other in the joint investment for the production of movies.
- Payment:** Separate underlying agreements and other collateral agreements will be entered into which will set out the precise investment amounts, investment proportion, investment return distribution, payment method and other details of the arrangements in the manner provided in the Entertainment Content Investment and Production Cooperation Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on a fair and reasonable basis after arm's length negotiation between relevant parties taking into account various factors such as resources contribution (including intellectual property rights), and financial commitments (including investment amounts, other costs and expenses incurred, etc.).

Pricing policies

Both parties have agreed that the investment amounts, investment proportion and revenue/profit sharing mechanism for each definitive agreement that will be entered into pursuant to the Entertainment Content Investment and Production Cooperation Framework Agreement will be determined on a case-by-case basis and on a fair and reasonable basis with reference to factors such as evaluation of the prospects of the content, ownership of the copyrights, costs and expenses involved in the development, resources available for the production process and the box office guarantee arrangement (if any). Generally, unless otherwise agreed by the parties, the Group's investment return (being the portion out of the total returns generated by the jointly invested entertainment content) shall be determined with reference to the Group's investment proportion and the total investment amount contributed by the Group.

Prior to entering into any definitive agreement pursuant to the Entertainment Content Investment and Production Cooperation Framework Agreement and/or making the relevant joint investment, the Group (including the committee comprises of senior management and relevant department heads) will assess the project including details of the subject movie such as director (if confirmed), main cast (if confirmed), draft script, expected releasing date, estimated total budget, proposed revenue/profit sharing mechanism, investment amount, settlement terms, investment proportion, film copyright issues, distribution rights, and other general clauses including confidentiality and transferability. Unlike standard product, each movie has its own special characteristics and value, the Group will consider various factors including factors mentioned above as well as the detailed terms including revenue/profit sharing mechanism of other projects in which the Group has invested recently prior to making the investment decisions. The Group will compare the proposed revenue/profit sharing

LETTER FROM GRAM CAPITAL

mechanism against the terms proposed by at least two investors of the subject movie which are Independent Third Parties (if applicable), and will only enter into definitive agreements and invest in relevant entertainment content when the revenue/profit sharing mechanism is in line with or more advantageous to the Group than the mechanism offered by other comparable existing or potential subject movie investors (if any), and entering into the definitive agreement is in the best interest of the Company and the Shareholders as a whole.

For our due diligence purpose, we obtained and reviewed individual agreements for such investments in three movies that were released in 2021. We noted that the Group's investment proportion is in line with the percentage of investment amount to the investment costs for such movies and investment return will be determined with reference to, among other things, the investment proportion.

With reference to the Board Letter, in order to ensure that the terms under relevant framework and definitive agreements for the continuing connected transactions are fair and reasonable, or no less favourable than terms available to or from independent third parties, comply with the annual caps and pricing policies under relevant framework agreements, and are carried out under normal commercial terms, the Company has adopted certain internal control procedures. Details of the internal control procedures are set out under the section headed "Internal Control" of the Board Letter.

Having considered that various internal departments of the Company including but not limited to the finance department and compliance and legal department are jointly responsible for evaluating the terms under framework and definitive agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement, we consider the effective implementation of internal control measures will ensure the fair pricing under the framework agreement.

Furthermore, we discussed with staffs of finance department, compliance and legal department and the Reporting Team (being the parties to be involved in the internal control procedures of China Literature CCTs) and understood that the staffs of the aforesaid departments/team were aware of the internal control procedures for the China Literature CCTs and will comply with such internal control procedures when the China Literature CCTs.

According to our findings as mentioned above, we do not doubt the effectiveness of the internal control measures.

In addition, we also noted that the Reporting Team is responsible for monitoring the transaction amounts of the continuing connected transactions to ensure that the annual caps under the framework agreements are complied with, and that any definitive agreement under the relevant framework agreements shall be entered into by the Company with the prior approval of the Reporting Team. We consider that the Company has sufficient measures to monitor the utilisation of the annual caps.

LETTER FROM GRAM CAPITAL

Proposed annual caps

The table below demonstrates the proposed annual caps for the period ending 31 December 2024:

	From 18 August 2022 to 31 December 2022 (the “2022 Period”) RMB’000	For the year ending 31 December 2023 (“FY2023”) RMB’000	For the year ending 31 December 2024 (“FY2024”) RMB’000
Proposed annual caps	313,000	381,000	502,000

With reference to the Board Letter, there was no historical amount under the entertainment content investment and production cooperation transaction with China Literature Group upon the Listing.

With reference to the Board Letter, the proposed annual caps were determined based on certain factors, details of which are set out under the sub-section headed “Proposed Annual Caps and Basis of Determination” under the section headed “Entertainment Content Investment and Production Cooperation Framework Agreement” of the Board Letter.

To assess the fairness and reasonableness of the proposed annual caps, we obtained a calculation of the proposed annual caps from the Management. We noted from the calculation that the Group expects to invest 8 to 12 entertainment content production projects with China Literature Group for the 2022 Period with investment amount for each project to be contributed by the Group ranged from approximately RMB8.0 million to over one hundred million (including investment amounts and box office guaranteed amounts) (the “**2022 Investment Amounts Range**”), depending on the size of the project. As further advised by the Management, the project with highest estimated investment amount was expected to include the box office guarantee amount, which was determined based on the estimated box office of such movie and the estimated proportion of box office guarantee to be undertaken by the Group.

For our due diligence purpose, we obtained a list of movie investment and production projects which the Group had jointly invested and the subject movies were released during FY2021. Based on the aforesaid list, we noted that the Group jointly invested into over 20 movie investment and production projects. We understood from the Management that the investment amount was determined based on the expected production costs and the investment proportion in the projects. Without taking into account the estimated box office guarantee amount, the 2022 Investment Amounts Range for each project to be contributed by the Group fell within the range of investment amount in each movie for FY2021 (excluding box office guaranteed amounts).

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With reference to the Board Letter, as at the Latest Practicable Date, the Group and China Literature Group has preliminarily agreed on joint investment in two movies, the potential investment amount of which to be contributed by the Group is approximately RMB200 million. Subject to releasing schedule of the subject movies, the investment in these two subject movies is currently expected to be completed within 2022, and the parties expect to jointly invest in more movies within 2022.

As aforementioned, the estimated box office guarantee amount for the project with highest estimated investment amount was determined based on the estimated box office of such movie and the estimated proportion of box office guarantee to be undertaken by the Group. For our due diligence purpose, we obtained a calculation of such estimated box office guarantee amount from the Management. Based on the calculation, we noted that the estimated box office of such movie was in line the box office of a blockbuster movie (which the Group had undertaken box office guarantee) that was released during FY2021 which the Group jointly invested. As such, we do not doubt the reasonableness of the estimated box office guarantee amount.

In addition, we also noted from the website of New Classics Media that New Classics Media invested or co-invested into 5 movies or online movies (which were released) in 2020, 10 movies or online movies (which were released) in 2021 and 2 movies or online movies (which were released) during 1H2022. Accordingly, we consider the number of movies which the Group plans to invest in with the China Literature Group for each of the 2022 Period and the two years ending 31 December 2024 to be justifiable.

In light of the above factors, we are of the view that the proposed annual cap for the 2022 Period is fair and reasonable.

According to the table above, the proposed annual caps for FY2023 and FY2024 represented an increase of approximately 21.73% and 31.76% as compared to the proposed annual caps for the 2022 Period and FY2023 respectively. With reference to the Board Letter, the growth rate was determined with reference to, among other things, (i) the increasing project scale of the subject movies with the further deepen and enhanced cooperation relationship between the Group and China Literature Group; (ii) the increasing cost and expense involved in production of one high-quality movie along with the development of the industry; and (iii) the anticipated growth of the film market in China taking into consideration that a number of policy or guidance supports from China Film Administration such as the 14th Five Year Plan for the Development of Chinese Films (《“十四五”中國電影發展規劃》).

Despite the adverse impact of COVID-19 pandemic on the national box office revenue of in the PRC (including domestic movies), the national box office revenue in the PRC rebounded to approximately RMB47.3 billion for the year 2021, as compared to approximately RMB20.4 billion for the year 2020. Furthermore, the proportion of the box office revenue of domestic movies to the national box office revenue of the PRC increased from approximately 53.85% for the year 2017 to approximately 84.36% for the year 2021, representing an increase of approximately 30.51 percentage points.

LETTER FROM GRAM CAPITAL

We noted from the 14th Five Year Plan for the Development of Chinese Films that, during the 14th Five -Year, the development plans of the Chinese film market including, among other things, (i) the release of around 10 blockbuster movies per annum; (ii) achieved around 50 domestic movies that reached the box office revenue of over RMB100 million per annum; (iii) maintain the proportion of domestic movies' box office revenue to national box office revenue at 55% or more; and (iv) the number of cinema screens exceed 100,000 by 2025.

On 27 July 2021, the Ministry of Commerce of the PRC issued the Notice of Publication of the List of National Cultural Export Key Enterprises and Key Projects in 2021-2022 (《關於公示2021-2022年度國家文化出口重點企業和重點項目名單的通知》), which enclosed a list of key enterprises and key projects reviewed and approved by relevant competent authorities, third-party professional institutions, experts and relevant departments of the government of the PRC. We noted from the aforesaid list that New Classics Media was also enlisted as one of the key enterprises.

Based on the growth of the box office revenue in the PRC (including domestic movies) and the development plans of the China's film market, we considered the estimated growth rates for the proposed annual caps to be justifiable.

In light of the above factors, we are of the view that the proposed annual caps for FY2023 and FY2024 are fair and reasonable.

Shareholders should note that as the proposed annual caps for the 2022 Period and the two years ending 31 December 2024 under the Entertainment Content Investment and Production Cooperation Framework Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of cost to be incurred from the transactions contemplated under the Entertainment Content Investment and Production Cooperation Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred from the transactions contemplated under the Entertainment Content Investment and Production Cooperation Framework Agreement will correspond with the proposed annual caps.

Having considered the above factors, we are of the view that the terms of the transactions contemplated under the Entertainment Content Investment and Production Cooperation Framework Agreement are on normal commercial terms and are fair and reasonable.

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B. Movies Promotion and Distribution Framework Agreement

Principal terms of the Movies Promotion and Distribution Framework Agreement are set out as follows:

- Date:** 18 August 2022
- Parties:** (i) the Company (for itself and on behalf of the Group)
(ii) Shanghai Yueting (for itself and on behalf of China Literature Group)
- Terms:** From 18 August 2022 to 31 December 2024
- Subject Matter:**
- (a) **Provision of Movies Promotion and Distribution Services by the Group to China Literature Group**
- Movies promotion services: the Group will plan and coordinate various online or offline marketing and promotional activities, including but not limited to conducting movies marketing and publicity campaigns, such as organizing fans gatherings and road shows;
 - Movies distribution services: the Group will coordinate the distribution of marketing materials, configure marketing strategies and release plans, negotiate with cinemas and cinema managers regarding release schedule, and monitor box office performance and market feedback of movies.
- (b) **Provision of Movies Promotion and Distribution Services by China Literature Group to the Group**
- Movies promotion services: China Literature Group will plan and coordinate various online or offline marketing and promotional activities, including but not limited to conducting movies marketing and publicity campaigns, such as organizing fans gatherings and road shows;
 - Movies distribution services: China Literature Group will coordinate the distribution of marketing materials, configure marketing strategies and release plans, negotiate with cinemas and cinema managers regarding release schedule, and monitor box office performance and market feedback of movies.

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Payment: Separate underlying agreements will be entered into which will set out the precise scope of services, service fees, payment method and other details of the service arrangement in the manner provided in the Movies Promotion and Distribution Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm's length negotiation between the parties taking into account various factors such as the prospects of relevant movies, and a party's resources contribution, costs and expenses incurred in providing such promotion and distribution services.

Pricing policies

(a) Provision of Movies Promotion and Distribution Services by the Group to the China Literature Group

The fees for services contemplated under the Movies Promotion and Distribution Framework Agreement will be determined on a case-by-case basis and on a fair and reasonable basis, in particular, (1) the service fees for movie promotion services will be determined by taking into account the Group's resources contribution to the promotion services. For offline resources, the service fees will be determined by the actual costs and expenses for preparing relevant publicity campaigns plus reasonable profits which normally will not exceed 8% in line with the pricing for similar services provided to Independent Third Parties by the Group and market rate, while the service fees for using online resources will be calculated by the unit prices of different online publicity resources multiplied by the frequency of such resources are used. The unit prices of each online publicity resources will be determined with reference to the then prevailing market rates. The Group will compare the pricing of comparable services provided to at least two Independent Third Parties before entering into any definitive agreement, to ensure the continuing connected transactions would be conducted under normal commercial terms and on terms which are similar or comparable with Independent Third Parties; and (2) the service fees for movie distribution service will either be: (i) a predetermined fixed amount with reference to the expected revenue agreed by both parties; (ii) calculated based on the box office of movies in accordance with the following formula: distribution service fees = revenue-sharing box office * distribution service fees rate, or (iii) calculated based on the non-theatrical distribution contract in accordance with the following formula: distribution service fees = revenue generated from non-theatrical distribution * distribution service fees rate.

Note: The revenue-sharing box office refers to the box office of the movie distributed after deduction of value-added tax, National Film Development Fund Contribution, the revenue distribution to cinemas and the service fees payable to China Films or Huaxia (as the case may be). The value-added tax and National Film Development Fund Contribution represent a fix percentage of the box office, while the revenue distribution to cinemas shall represent an agreed proportion of net box office, which equals to the box office after deduction of value-added tax and National Film Development Fund Contribution, to be paid to cinemas. The service fees payable to China Films or Huaxia (as the case may be) shall be determined in accordance with the distribution contracts to be entered into by and between the distributor and China Films or Huaxia (as the case may be).

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Prior to entering into any definitive agreement pursuant to the Movies Promotion and Distribution Framework Agreement, the Group will assess and compare the fee structure and pricing terms (if applicable) proposed by China Literature Group with the prevailing market rates. The Group will only enter into definitive agreements in respect of movies promotion and distribution services with China Literature Group when the fee structure and pricing terms, as a whole, is in line or better than the prevailing market rates and the definitive agreement is in the best interest of the Company and the Shareholders as a whole.

For our due diligence purpose, we enquired into the Company regarding the distribution service fees range of the prevailing market rates. We understood from the Management that when the Group act as a lead distributor, the rate of distribution fee (equals the distribution fee the Group received divided by the total revenue-sharing box office) the Group received typically ranged from 5% to 12%. When the Group act as a co-distributor, the Group's distribution fee may be either a pre-agreed amount or determined at a rate ranging from 1% to 2% in general.

In addition, we obtained individual contracts entered into between the Group and independent third parties regarding (i) distribution services provided by the Group (act as a co-distributor) for two movies where the Group is entitled to predetermined distribution fee rates; and (ii) distribution services provided by the Group (act as lead distributor) for two movies. As advised by the Company, the Group provided distribution services or recorded service fees for the distribution services for over 40 movies in total that were released during FY2021. Therefore, we consider the above-mentioned individual contracts involving distribution services for four different movies are sufficient for us to form our view. According to the individual contracts, we noticed that, among other things, the Group was entitled to distribution fee rates no less than the aforesaid rate range of 1% to 2% (act as a co-distributor) or no less than 5% (act as a lead distributor).

(b) Provision of Movies and TV Series Promotion and Distribution Services by China Literature Group to the Group

The service fees for movies promotion services will be determined on a case-by-case basis and on a fair and reasonable basis by taking into account the type, estimated costs and market price of the resources contributed by China Literature Group, the total budget for the movies promotion services etc.

In respect of the service fees for movies distribution, the pricing policies are substantially the same as those under which the Group provide movies distribution services to China Literature Group.

With reference to the Board Letter, in order to ensure that the terms under relevant framework and definitive agreements for the continuing connected transactions are fair and reasonable, or no less favourable than terms available to or from independent third parties, comply with the annual caps and pricing policies under relevant framework agreements, and

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are carried out under normal commercial terms, the Company has adopted certain internal control procedures. Details of the internal control procedures are set out under the section headed “Internal Control” of the Board Letter.

Having considered that various internal departments of the Company including but not limited to the finance department and compliance and legal department are jointly responsible for evaluating the terms under framework and definitive agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement, we consider the effective implementation of internal control measures will ensure the fair pricing under the framework agreement.

Furthermore, we discussed with staffs of finance department, compliance and legal department and the Reporting Team (being the parties to be involved in the internal control procedures of China Literature CCTs) and understood that the staffs of the aforesaid departments/team were aware of the internal control procedures for the China Literature CCTs and will comply with such internal control procedures when the China Literature CCTs.

According to our findings as mentioned above, we do not doubt the effectiveness of the internal control measures.

In addition, we also noted that the Reporting Team is responsible for monitoring the transaction amounts of the continuing connected transactions to ensure that the annual caps under the framework agreements are complied with, and that any definitive agreement under the relevant framework agreements shall be entered into by the Company with the prior approval of the Reporting Team. We consider that the Company has sufficient measures to monitor the utilisation of the annual caps.

Proposed annual caps

- (a) Promotion and distribution services provided by the Group to China Literature Group

The table below demonstrates the proposed annual caps for the period ending 31 December 2024:

	From 18 August 2022 to 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	184,353	214,543	248,584

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With reference to the Board Letter, following the Listing, the movies promotion and distribution services provided by the Group to China Literature Group was approximately RMB1,000,000, nil, RMB300,000 and RMB300,000 for the three years ended 31 December 2021 and the six months ended 30 June 2022.

With reference to the Board Letter, the proposed annual caps for the movies promotion and distribution services provided by the Group were determined based on certain factors, details of which are set out under the sub-section headed “(a) Provision of Movies Promotion and Distribution Services by the Group to China Literature Group” under the section headed “Proposed Annual Cap and Basis of Determination” of the Board Letter.

To assess the fairness and reasonableness of the proposed annual caps, we obtained a calculation of the proposed annual caps from the Management. We noted from the calculation that the Group expects to provide promotion and distribution services to China Literature Group for six movies (as lead distributor and as co-distributor, as the case may be) and the estimated promotion and distribution costs were based on (i) the expected box office revenue of such movies attributable to China Literature Group, net of the value-added tax, National Film Development Fund Contribution and the service fees payable to China Films or Huaxia (as the case may be); and (ii) the estimated distribution fee rates.

For our due diligence purpose, we obtained a list of movies promotion and distribution projects (for movies that were released during FY2021) which the Group provided promotion and distribution services. Based on the aforesaid list, we noted that (i) the Group provided promotion and distribution services for over 40 movies during FY2021; (ii) the range of estimated promotion and distribution service fees payable to the Group per movie for the 2022 Period fell within the range of promotion and distribution service fees payable to the Group per movie for FY2021; and (iii) the range of estimated distribution fee rates for the 2022 Period was in line with the range of distribution fee rates for the promotion and distribution services for the over 40 movies during FY2021.

In addition, we also noted from the website of New Classics Media that it invested or co-invested into 5 movies or online movies (which were released) in 2020, 10 movies or online movies (which were released) in 2021 and 2 movies or online movies (which were released) during 1H2022.

Based on the above factors, in particular (i) the number of movies which the Group provided promotion and distribution services for during FY2021 (i.e. over 40 movies) far exceeds the estimated number of movies the Group expects to provide promotion and distribution services to China Literature Group for the 2022 Period (i.e. six movies); (ii) estimated fee rates adopted in formulating the proposed annual caps were in line with the range of fee rates for the promotion and distribution of over 40 movies during FY2021, we do not doubt (i) the Group’s ability to provide promotion and distribution services for six movies for the 2022 Period; and (ii) the estimated fee rates adopted in formulating the proposed annual caps. As such, we consider the proposed annual caps for the 2022 Period to be fair and reasonable.

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According to the table above, the proposed annual caps for FY2023 and FY2024 represented an increase of approximately 16.38% and 15.87% as compared to the proposed annual caps for the 2022 Period and FY2023 respectively. With reference to the Board Letter, the growth rate was determined with reference to (i) the expected increasing scale of the subject movies and the increasing cost involved in the promotion and distribution of such movies; and (ii) the improvement of the Group's promotion and distribution capability and the diversity of the movies promoted and distributed by the Group.

In light of (i) the improvement of the movie industry in the PRC, as evidenced by the improvement of the national box office revenue in the PRC (including domestic movies), in particular the increase in proportion of box office revenue of domestic movies to the national box office revenue; and (ii) the development plan of the Chinese films industry, we considered the estimated growth rate of approximately 16.38% and 15.87% for the proposed annual caps for FY2023 and FY2024 to be justifiable.

In light of the above factors, we are of the view that the proposed annual caps for FY2023 and FY2024 to be fair and reasonable.

(b) Promotion and distribution services provided by China Literature Group to the Group

The table below demonstrates the proposed annual caps for the period ending 31 December 2024:

	From 18 August 2022 to 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Proposed annual caps	13,703	18,784	22,324

With reference to the Board Letter, there was no other historical amount in respect of movies promotion and distribution transaction with China Literature Group upon the Listing.

With reference to the Board Letter, the proposed annual caps for the promotion and distribution services provided by China Literature Group to the Group were determined based on certain factors, details of which are set out under the sub-section headed "(b) Provision of movies promotion and distribution services by China Literature Group to the Group" under the section headed "Proposed Annual Cap and Basis of Determination" of the Board Letter.

To assess the fairness and reasonableness of the proposed annual caps, we obtained a calculation of the proposed annual caps from the Management. We noted from the calculation that the Group expects to engage China Literature Group (as co-distributor) to provide promotion and distribution services for two small-size projects for each of the 2022 Period,

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FY2023 and FY2024 with estimated promotion and distribution costs based on (i) the expected box office revenue of such movies attributable to the Group, net of the value-added tax, National Film Development Fund Contribution and the service fees payable to China Films or Huaxia (as the case may be); and (ii) the estimated distribution fee rate.

In respect of number of projects, we understood from the Management that the Group engaged connected persons to provide promotion and distribution services for two movie promotion and distribution projects and one movie promotion and distribution project for the year ended 31 December 2019 and FY2020 respectively. As such, we do not doubt the number of movie promotion and distribution projects the Group expects to engage China Literature Group (as co-distributor) for each of the 2022 Period, FY2023 and FY2024.

As mentioned above, in respect of the service fees for movies distribution, the pricing policies are substantially the same as those under which the Group provide movies distribution services to China Literature Group. When the Group act as a lead distributor, the rate of distribution fee (equals the distribution fee the Group received divided by the total revenue-sharing box office) the Group received typically ranged from 5% to 12%. When the Group act as a co-distributor, the Group's distribution fee may be either a pre-agreed amount or determined at a rate ranging from 1% to 2% in general. The estimated distribution fee rate fell within the aforesaid range.

Based on the above factors, we consider the proposed annual caps for the 2022 Period, FY2023 and FY2024 to be fair and reasonable.

Shareholders should note that as the proposed annual caps for the 2022 Period and the two years ending 31 December 2024 under the Movies Promotion and Distribution Framework Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of cost to be incurred or income to be generated from the transactions contemplated under the Movies Promotion and Distribution Framework Agreement. Consequently, we express no opinion as to how closely the actual cost to be incurred or income to be generated from the transactions contemplated under the Movies Promotion and Distribution Framework Agreement will correspond with the proposed annual caps.

Having considered the factors, we are of the view that the terms of the transactions contemplated under the Movies Promotion and Distribution Framework Agreement are on normal commercial terms and are fair and reasonable.

Listing Rules implications

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the China Literature CCTs must be restricted by the relevant proposed annual caps; (ii) the terms of the China Literature CCTs (together with the proposed annual caps) must be reviewed by the independent non-executive

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Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the China Literature CCTs (together with the proposed annual caps) must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the China Literature CCTs (i) have not been approved by the listed issuer's board of directors; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the cap.

In the event that the value of the China Literature CCTs is anticipated to exceed the proposed annual caps, or that there is any proposed material amendment to the terms of the China Literature CCTs, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the China Literature CCTs and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the China Literature CCTs are on normal commercial terms and are fair and reasonable; and (ii) the China Literature CCTs are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the China Literature CCTs and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the number of issued Shares was 1,143,665,270 Shares of nominal value of US\$0.00002 each which have been fully paid.

3. EXPERT AND CONSENTS

The following are the qualification of the expert who has given opinions and advice contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears.
- (b) neither had any shareholding in any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.
- (c) did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to any member of the Group since December 31, 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2021, being the date to which the latest published audited annual financial statements of the Company were made up.

5. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with the Company or its subsidiaries which was not expiring or might not be terminated by the Company within a year without payment of any compensation, other than statutory compensation.

6. DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Directors/Chief Executive	Capacity	Nature of Interests	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. ZHENG Zhihao ¹	Interest in controlled corporations	Long Position	19,277,225	1.69
	Beneficial owner	Long Position	16,172,039 ²	1.41
Mr. WANG Changtian ³	Interest in controlled corporations	Long Position	312,722,773	27.34
		Short Position	158,743,072	13.88
Ms. WANG Jian	Beneficial owner	Long Position	450,000	0.04

Notes:

1. As at the Latest Practicable Date, Rhythm Brilliant Limited directly held 19,277,225 Shares in our Company. Rhythm Brilliant Limited is a wholly-owned subsidiary of Mr. ZHENG Zhihao. Therefore, Mr. ZHENG Zhihao is deemed to be interested in the 19,277,225 Shares held by Rhythm Brilliant Limited for purpose of Part XV of the SFO.
2. These interests include 11,299,500 existing share options granted by the Company to Mr. ZHENG Zhihao under the Post-IPO Share Option Scheme on January 19, 2021 entitling him to subscribe for 11,299,500 shares of the Company. As of the Latest Practicable Date, Mr. ZHENG Zhihao has not exercised any share options.
3. As at the Latest Practicable Date, Vibrant Wide Limited and Hong Kong Pictures International Limited directly held 277,979,625 Shares (among which 158,743,072 Shares were provided as security to a person other than a qualified lender) and 193,486,220 Shares in our Company, respectively. Vibrant Wide Limited is owned by Mr. WANG Changtian as to 100% of its equity interests. Hong Kong Pictures International Limited is a wholly-owned subsidiary of Beijing Enlight Media Co. Ltd. (北京光線傳媒股份有限公司), which is owned by Enlight Holdings Limited as to 42.54% of its equity interests, which in turn is owned by Mr. WANG Changtian as to 95% of its equity interests. Therefore, Mr. WANG Changtian is deemed to be interested in the 471,465,845 Shares held by Vibrant Wide Limited and Hong Kong Pictures International Limited for purpose of Part XV of the SFO. Mr. WANG Changtian is a director of Vibrant Wide Limited, Hong Kong Pictures International Limited, Enlight Holdings Limited and director as well as general manager of Beijing Enlight Media Co. Ltd. Ms. LI Xiaoping, a Director, is a director of Beijing Enlight Media Co. Ltd. Ms. WANG Jian, a Director, is a director of Enlight Holdings Limited. Mr. CHEN Shaohui, a Director, is a director of Beijing Enlight Media Co. Ltd.

Save as disclosed above and elsewhere in this circular, as at the Latest Practicable Date, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, directly or indirectly, has had any interest in any assets which had since December 31, 2021 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

Save as disclosed in this circular, there was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors or proposed directors was materially interested and which was significant in relation to the businesses of the Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as the Directors or the chief executive of the Company were aware, the Substantial Shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
Vibrant Wide Limited	Beneficial owner	Long Position	119,236,553	10.43
		Short Position	158,743,072	13.88
Hong Kong Pictures International Limited	Beneficial owner	Long Position	193,486,220	16.92
Inspired Elite Investments Limited ¹	Beneficial owner	Long Position	82,693,975	7.23
Meituan ¹	Interest in controlled corporations	Long Position	82,693,975	7.23
Crown Holdings Asia Limited ¹	Interest in controlled corporations	Long Position	82,693,975	7.23
Songtao Limited ¹	Interest in controlled corporations	Long Position	82,693,975	7.23
TMF (Cayman) Ltd. ¹	Trustee	Long Position	82,693,975	7.23
Wang Xing ¹	Interest in controlled corporations	Long Position	82,693,975	7.23
Image Flag Investment (HK) Limited ²	Beneficial owner	Long Position	157,169,260	13.74
Tencent Holdings Limited ²	Interest in controlled corporations	Long Position	157,169,260	13.74
Weying (BVI) Limited ³	Beneficial owner	Long Position	75,759,479	6.62
Interstellar Investment Ltd. ⁴	Beneficial owner	Long Position	66,127,317	5.78

Name of Substantial Shareholders	Capacity	Nature of Interest	No. of Shares	Approximate percentage of the issued share capital of the Company (%)
NottingHill Investment Ltd. ⁴	Interest in controlled corporations	Long Position	66,127,317	5.78
FountainVest China Capital Partners Fund III, L.P. ⁴	Interest in controlled corporations	Long Position	66,127,317	5.78
FountainVest China Capital Partners GP3 Ltd. ⁴	Interest in controlled corporations	Long Position	66,127,317	5.78

Notes:

- Inspired Elite Investments Limited is wholly-owned by Meituan, which is owned as to 39.18% by Crown Holdings Asia Limited, which is in turn wholly-owned by Songtao Limited, Songtao Limited is in turn wholly-owned by TMF (Cayman) Ltd., and in turn wholly-owned by Mr. WANG Xing. Therefore, Meituan, Crown Holdings Asia Limited, Songtao Limited, TMF (Cayman) Ltd. and Mr. WANG Xing are deemed to be interested in the 82,693,975 shares held by Inspired Elite Investment Limited for purpose of Part XV of the SFO. Mr. CHEN Shaohui, a Director, is the chief financial officer and senior vice president of Meituan.
- Image Flag Investment (HK) Limited is wholly-owned by Tencent Holdings Limited. Therefore, Tencent Holdings Limited is deemed to be interested in the 157,169,260 shares held by Image Flag Investment (HK) Limited for purpose of Part XV of the SFO.
- Mr. LIN Ning, a Director, is a director of Weying (BVI) Limited.
- Interstellar Investment Ltd. is wholly-owned by NottingHill Investment Ltd., which is owned as to 77.34% by FountainVest China Capital Partners Fund III, L.P., which is in turn wholly-owned by FountainVest China Capital Partners GP3 Ltd. Hence, NottingHill Investment Ltd., FountainVest China Capital Partners Fund III, L.P. and FountainVest China Capital Partners GP3 Ltd. are deemed to be interested in the Shares held by Interstellar Investment Ltd.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors were aware, no other persons (other than the Directors or chief executive) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

7. COMPETING INTERESTS

Mr. Cheng Wu, being a Director, holds directorship in China Literature Group. Save as disclosed in this circular, none of the Directors or their associates has any competing interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (ir.maoyan.com) for a period of 14 days from the date of this circular:

- (a) Entertainment Content Investment and Production Cooperation Framework Agreement;
- (b) Movies Promotion and Distribution Framework Agreement;
- (c) letter from the Independent Board Committee;
- (d) letter from Gram Capital; and
- (e) letter of consent from Gram Capital.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Maoyan Entertainment

貓眼娛樂

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1896)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting of Maoyan Entertainment (the “**Company**”) will be held at No. 3 Building, Yonghe Hangxing Garden, No. 11 Hepingli East Street, Dongcheng District, Beijing, the PRC on Tuesday, November 1, 2022 at 2:00 p.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions.

Unless otherwise specified, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated October 13, 2022 (the “**Circular**”).

Ordinary Resolutions

1. To consider and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

“**That:**

- (a) Entertainment Content Investment and Production Cooperation Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, details of which are more particularly described in the circular of the Company dated October 13, 2022, be and is hereby approved, ratified and confirmed;
- (b) Movies Promotion and Distribution Framework Agreement, the transactions contemplated thereunder and the proposed annual caps, details of which are more particularly described in the circular of the Company dated October 13, 2022, be and is hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one executive Director be and is hereby authorized for and on behalf of the Company to execute, and where required, to affix the common seal of the Company to, any documents, instruments or agreements, and to do any acts and things deemed by him or her to be necessary, expedient or appropriate in order to give effect to and implement the transactions contemplated under the China Literature CCTs (including the proposed annual caps thereunder for the three years ending December 31, 2024).”

By order of the Board
Maoyan Entertainment
Mr. Zheng Zhihao
Executive Director

Hong Kong, October 13, 2022

Registered office:

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

*Head office and principal place
of business in China:*

No. 3 Building, Yonghe Hangxing Garden
No. 11 Hepingli East Street
Dongcheng District
Beijing, PRC

Principal place of business in Hong Kong:

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (i) A shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. The proxy does not need to be a shareholder of the Company.
- (ii) In order to be valid, the completed form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practice in Hong Kong), at least 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjourned meeting thereof) if they so wish.
- (iii) A form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be either executed under seal or under the hand of an officer or attorney duly authorized to sign the same.
- (iv) In the case of joint holders of any shares, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such shares as if he was solely entitled thereto. However, if more than one of such joint holders is present at the meeting, either personally or by proxy, the joint holder whose name stands first in the register of members of the Company will alone be entitled to vote in respect of such shares.
- (v) On a poll, every shareholder present at the EGM shall be entitled to one vote for every fully paid-up share of which he is the holder. The result of such poll shall be deemed to be the resolution of the EGM at which the poll was so required or demanded.
- (vi) Shareholders or their proxies attending the EGM shall be responsible for their own accommodation and travel expenses.
- (vii) The register of members of the Company will be closed from Thursday, October 27, 2022 to Tuesday, November 1, 2022, both days inclusive, in order to determine the eligibility of shareholders to attend the EGM, during which period no share transfers will be registered. To be eligible to attend the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on Wednesday, October 26, 2022.
- (viii) Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in this notice will be taken by poll at the EGM.

As at the date of this notice, the Board of Directors of the Company comprises Mr. Zheng Zhihao as Executive Director, Mr. Wang Changtian, Ms. Li Xiaoping, Ms. Wang Jian, Mr. Cheng Wu, Mr. Chen Shaohui, Mr. Lin Ning and Mr. Tang Lichun, Troy as Non-executive Directors, and Mr. Wang Hua, Mr. Chan Charles Sheung Wai, Mr. Yin Hong and Ms. Liu Lin as Independent Non-executive Directors.