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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

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CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

**PROPOSALS FOR
RE-ELECTION OF RETIRING DIRECTOR
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



SOMERLEY CAPITAL LIMITED

A notice convening the extraordinary general meeting of China Literature Limited to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, December 11, 2023 is set out on pages 49 to 50 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 of Hong Kong Limited (www.hkexnews.hk) and the Company (<http://ir.yuewen.com>). Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the extraordinary general meeting (or any adjournment thereof) if they so wish.

November 20, 2023

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company adopted on October 18, 2017 and effective on November 8, 2017, and as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Development Team”	designated business development team of the Group comprising certain personnel responsible for overseeing its intellectual property operations
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the main board of the Stock Exchange with stock code 772
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, December 11, 2023, or any adjournment thereof and notice of which is set out on pages 49 to 50 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 People’s Republic of China
“Independent Board Committee”	means the independent committee of the Board, comprising Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, being all the independent non-executive Directors, established for the purpose of, among other things, advising the Independent Shareholders in respect of the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser” or “Sommerley”	Sommerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the transactions contemplated thereunder
“Independent Shareholders”	means the Shareholders other than Tencent and its associates
“Independent Third Party(ies)”	any entity or person who is not a connected person of the Company within the meaning ascribed there to under the Listing Rules
“IP(s)”	intellectual property(ies)
“IP Cooperation CCTs”	the cooperation in the content adaptation of the Company’s literary works, distribution of the works (including but not limited to literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements)
“Latest Practicable Date”	November 10, 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in paralleled with the Growth Enterprise Market of the Stock Exchange
“New Classics Media”	New Classics Media Holdings Limited (previously known as “Qiandao Lake Holdings Limited”), a company established in Cayman Islands on May 18, 2018 and whose subsidiaries are principally engaged in production and distribution of television series and movies
“PRC” or “China”	the People’s Republic of China, but for the purposes of this circular only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Retained Tencent Group”	Tencent and its subsidiaries, excluding the Group

DEFINITIONS

“RSU(s)”	restricted share unit(s)
“RSU Plan”	the scheme adopted by the Company to grant RSUs to the Directors, senior management and employees and those of our subsidiaries which took effect as of December 23, 2014
“RMB”	Renminbi, the lawful currency of the PRC
“Scripts IP(s)”	scripts and related IP adaptation rights
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Shanghai Yueting”	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司) (previously known as Shengting Information Technology (Shanghai) Co., Ltd), a company established in the PRC on May 27, 2008, and the indirectly wholly-owned subsidiary of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of nominal value of US\$0.0001 each in the capital of the Company
“Share Option Plan”	a share option plan of the Company adopted on May 24, 2021, as amended from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tencent”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 700), and the controlling shareholder of the Company
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a company established in the PRC on November 11, 1998 and a wholly-owned subsidiary of Tencent
“2020 Restricted Share Unit Scheme”	a restricted share unit scheme of the Company adopted on May 15, 2020, as amended from time to time
“2021 Distribution Framework Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the distribution of the films, television series and animations for the Group

DEFINITIONS

“2021 IP Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 16, 2021 in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works and comics) and/or licensing of the elements of these works
“2021 Joint Investment Agreement”	an agreement entered into on August 11, 2020 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products
“2024 IP Cooperation Framework Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works, comics, films, television series and animations) and/or licensing of the elements of these works
“2024 Joint Investment Agreement”	an agreement entered into on August 10, 2023 between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) in relation to, among other things, the cooperation on the joint investment in the films, television series, games, animations, comics and other products
“%”	percent

LETTER FROM THE BOARD



CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

Executive Directors:

Mr. Hou Xiaonan
Mr. Huang Yan

Non-Executive Directors:

Mr. James Gordon Mitchell
Mr. Cao Huayi
Mr. Xie Qinghua

Independent Non-Executive Directors:

Ms. Yu Chor Woon Carol
Ms. Leung Sau Ting Miranda
Mr. Liu Junmin

Registered office:

The offices of Maples Corporate
Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

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

N3 Lujiazui Binjiang Center
No. 5169 Binjiang Avenue
Pudong New Area
Shanghai
PRC

Principal place of business in Hong Kong:

Room 1503-04
ICBC Tower
3 Garden Road, Central
Hong Kong

November 20, 2023

To the Shareholders

Dear Sir or Madam

**PROPOSAL FOR
RE-ELECTION OF RETIRING DIRECTOR
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to give you the notice of the Extraordinary General Meeting and the proposals to be put forward at the Extraordinary General Meeting: (a) the re-election of the retiring Director; and (b) the renewal of the continuing connected transactions contemplated under (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement.

LETTER FROM THE BOARD

RE-ELECTION OF RETIRING DIRECTOR

Ms. Leung Sau Ting Miranda will retire at the Extraordinary General Meeting and, being eligible, will offer herself for re-election as Director at the Extraordinary General Meeting. Details of Ms. Leung Sau Ting Miranda, who is subject to re-election at the Extraordinary General Meeting, are set out in Appendix I to this circular in accordance with the relevant requirements of the Listing Rules.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated August 10, 2023 and September 8, 2023 in respect of, among others, the renewal of (i) the 2021 Joint Investment Agreement and (ii) the 2021 IP Cooperation Framework Agreement. Reference is also made to the announcement of the Company dated August 11, 2020 in relation to, among others, the entering into the 2021 Joint Investment Agreement and the 2021 Distribution Framework Agreement, the announcement of the Company dated August 16, 2021 in relation to, among other things, the entering into the 2021 IP Cooperation Framework Agreement, and the circular of the Company dated November 5, 2021, in relation to, among other things, the 2021 IP Cooperation Framework Agreement.

As disclosed in the announcements and the circular of the Company mentioned above, the 2021 Joint Investment Agreement and the 2021 IP Cooperation Framework Agreement shall expire on December 31, 2023.

As the Group intends to continue carrying out the transactions under the 2021 Joint Investment Agreement and the 2021 IP Cooperation Framework Agreement in the ordinary and usual course of business of the Group, Shanghai Yueting (on behalf of Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2021 Joint Investment Agreement and the 2021 IP Cooperation Framework Agreement, by entering into (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement for a term of three years commencing from January 1, 2024 to December 31, 2026 (both days inclusive), subject to the Shareholders' approval.

As the scope of the 2024 IP Cooperation Framework Agreement has covered the cooperation under the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement, the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement will be renewed by the entering into the 2024 IP Cooperation Framework Agreement after their respective expiration on December 31, 2023.

1. 2024 Joint Investment Agreement

Principal terms of the 2024 Joint Investment Agreement are set out as follows:

Date	:	August 10, 2023
Parties	:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	:	From January 1, 2024 to December 31, 2026 (subject to Shareholders' approval)

LETTER FROM THE BOARD

- Subject matter : The Group shall cooperate with the Retained Tencent Group in the joint arrangements including but not limited to:
- (1) making joint investments in the production of the films and television series,
 - (2) making joint investments in the research and development of games, animations, comics and other products, and
 - (3) forming joint ventures or other joint arrangements (whether as a partnership, a company or in any other form) for the purpose of the above joint investments.
- Payment and settlement terms : The specific commercial terms of the investment and payment and settlement terms under the 2024 Joint Investment Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Joint Investment Agreement.

Pricing Policy

Both parties have agreed that specific commercial terms under the 2024 Joint Investment Agreement relating to the joint investment projects shall be determined after arm's length negotiation between the parties with reference to factors such as ownership of the copyrights, costs and expenses involved in the development, production and distribution of the relevant IP contents, revenue sharing or profit sharing arrangements, the equity interests of the parties in the joint arrangements, and the settlement of tax.

The specific investment amount, investment proportion, and proportion of investment return shall be determined on a case-by-case basis. Generally, unless otherwise agreed by the parties, the Group's investment return (being the portion out of the total returns generated by the relevant joint investment projects) shall be determined with reference to the proportion of investment amount that the Group has invested. The Group will only enter into an investment agreement with the Retained Tencent Group when the agreement is in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Historical Amounts

The historical amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group under the 2021 Joint Investment Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year ended December 31,		For the six months ended June 30,
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group	466,057	62,499	1,016 (unaudited)

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the maximum investment cost to be contributed by the Group in the joint arrangements with the Retained Tencent Group under the 2024 Joint Investment Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Aggregate amounts of the investment cost to be contributed by the Group in the joint arrangements with the Retained Tencent Group	655,000	785,000	893,000

The above proposed annual caps for the three years ending December 31, 2026 were determined with reference to (i) the scale, nature, popularity and commercial potential of the literary contents of the Group, (ii) the growth of the intellectual property adaptation market, based on the information provided by Analysys, which forecasted that the annual growth of China's intellectual property operations market for each of the three years ending December 31, 2025 was expected to be more than RMB10 billion, (iii) the increase in the demand of joint investments attributed to the potential growth in the business of the Group and Retained Tencent Group and expedition of existing projects, in particular, (a) the potential cooperation in three to eight projects in the year ending December 31, 2024 based on the current negotiation, with the estimated investment amounts ranging from RMB80 million to RMB400 million per project, depending on the nature and commercial potential of the joint investment project, and (b) the estimated annual growth of one to two projects for the two years ending December 31, 2026 based on the current

LETTER FROM THE BOARD

negotiation, taking into account the year-on-year growth rate of 52.91% and 51.87% in terms of the domestic cinema box office and total number of audiences, respectively, for the six months ended June 30, 2023 according to the statistics published by China Movie Database (中國電影數據信息網) and the expansion of domestic radio and television industry with an year-on-year growth rate of 10.89% in terms of the total revenue generated from national radio and television services for the six months ended June 30, 2023 according to the statistics published by National Radio and Television Administration (國家廣播電視總局), (iv) the anticipated scale of projects in the production and distribution of the films and television series and the research and development of games, animations and other products which the Group may be involved in, which is mainly estimated based on the current negotiation and with reference to the aforesaid growth of the intellectual property market according to Analysys, a professional technology and market analysis organization in the field of digital intelligence in the PRC, and (v) the expected costs involved in the production and distribution of the films and television series and the research and development of games, animations and other products.

Reasons and Benefits for Entering into the 2024 Joint Investment Agreement

The joint investment between the Retained Tencent Group and the Group will be a mutually beneficial cooperation arrangement. The formation of joint venture and engagement in joint arrangements for the adaptation of popular intellectual properties into the television series, films and other forms of media will enable the Group to reach more potential users and attract viewers of the television series, films and other forms of media to read the original literary content and purchase various entertainment products adapted from the literary content, thereby diversifying and expanding the reader base of the Group's literary works, increasing the potential revenue streams and enhancing the popularity and branding of the Group.

2. 2024 IP Cooperation Framework Agreement

Principal terms of the 2024 IP Cooperation Framework Agreement are set out as follows:

Date	:	August 10, 2023
Parties	:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	:	From January 1, 2024 to December 31, 2026 (subject to Shareholders' approval)
Subject matter	:	The Group agreed to the cooperation in the content adaptation of the Company's literary works, distribution of the works (including but not limited to literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements).

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For the avoidance of doubt, such IP Cooperation CCTs shall exclude any transactions which involve the formation of a joint venture entity in any form or other form of joint arrangement in connection with or for the purpose of the adaptation of intellectual property rights to the Group's literary works. If such joint venture entity is a subsidiary of Tencent, any type of cooperation contemplated by the IP Cooperation CCTs with such joint venture entity will be subject to the annual cap as further described below.

- Forms of cooperation : The parties shall cooperate on the following terms in respect of the IP Cooperation CCTs:
- (1) licensing by the Group of the adaptation rights, adapting literary works into live-action films and television series, games, audio works, comics or animations;
 - (2) licensing by the Group of the information network transmission rights, broadcasting rights and projection rights of works (including but not limited to literary works, audio works, comics, live-action films and television series and animations);
 - (3) licensing by the Group of the elements of literary works, audio works, live-action films and television series, comics and animations (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) to the Retained Tencent Group.
- Fee arrangements : The parties shall cooperate on the following terms for the fee in respect of the IP Cooperation CCTs:
- (1) fixed fee,
 - (2) revenue/profit sharing, or
 - (3) a mix of the above fee arrangements.
- Payment and settlement terms : Payment and settlement terms under the 2024 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2024 IP Cooperation Framework Agreement.

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Pricing Policy

To determine the fee arrangements of the IP Cooperation CCTs, the Board takes into account (i) the potential commercial value and the popularity of the relevant IP, (ii) forms of cooperation, and (iii) length and form of the adaptations. Generally there is a fixed fee for the IP Cooperation CCT, and for some adaptations like games, the Group is further entitled to revenue/profit sharing agreed upon on a case-by-case basis.

- (1) In respect of the adaptation of the Group's literary works into games, films, televisions, comics and/or animations,
 - (i) various commercial factors such as the nature, popularity and commercial potential of the subject IPs, market practice for similar IPs and the prevailing market price and average revenue/profit sharing percentage in the industry which ranges from 2% (the Group): 98% (the Retained Tencent Group) to 50% (the Group): 50% (the Retained Tencent Group);
 - (ii) whether the IP Cooperation CCTs may involve other third parties (such as downstream production and distribution partners and writers), which depends on the subject of the content adaptation and the value that the counterparties are able to bring to the cooperation; and
 - (iii) the range of ancillary rights to be agreed such as co-investment rights and/or co-development rights in relation to products to be adapted from the literary works among all or certain cooperating business partners.

- (2) In respect of the licensing of the Scripts IPs,
 - (iv) the estimated commercial value of the Scripts IP-based and pertinent television series and films, which in turn depends on (a) various commercial factors such as advertising revenue, audiences, expected rating, popularity, distribution cycle, price per episode and market comparable, (b) maturity, completeness of the Scripts IPs and their end user market, (c) financial resources and capabilities of online video platforms, and (d) mode and potential of subsequent adaptations (including the range of ancillary rights to be adapted, distribution channels, involvement of third parties (such as downstream production and distribution partners) and potential cooperation between the Group and the Retained Tencent Group thereof).

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- (3) In respect of audio works and comics distributed on the platforms not operated by the Group,
 - (v) the prevailing market price and average revenue/profit sharing percentage in the industry, which ranges from 50% (the Group): 50% (the Retained Tencent Group) to 80% (the Group): 20% (the Retained Tencent Group), and various commercial factors, including the nature, popularity and commercial potential of the relevant audio works and comics, and the quantity and quality of the Retained Tencent Group's distribution platforms. The fixed licensing fees shall equal to or be more than the proportion of revenue/profit to be shared to the Group calculated by the above method.

- (4) In respect of literary works distributed on the platforms not operated by the Group,
 - (vi) the fixed fee with reference to the prevailing market price in the industry, and various commercial factors, including the nature, popularity and commercial potential of the relevant literary works, and the quantity and quality of the Retained Tencent Group's distribution platforms.

- (5) In respect of films, television series and animations distributed on the platforms not operated by the Group,
 - (vii) the fixed production fees and/or distribution fees with reference to the prevailing market prices in the industry, and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of the films, television series, and animations to be produced and distributed.

The Group will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject IPs can be maximized and the relevant IP Cooperation CCTs are in the best interests of the Company and the Shareholders as a whole.

In respect of the licensing of Scripts IPs specifically, it is not directly comparable with those between the Group and other online video platforms as each Scripts IP is unique on its own. The Group will consider the historical commercial value of comparable television series and films sold by the Group to third parties under the traditional production model and compare against the licensing fees of the Scripts IPs, taking into account the factors including but not limited to the theme, price per episode, popularity and targeted end-users.

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In respect of literary works, audio works and comics distributed on the platforms not operated by the Group specifically, although the Group does not have the power in determining the final price of literary works, audio works and comics distributed on the platforms not operated by the Group, the Group will adopt comparative pricing proposals conducted by the Business Development Team as to the pricing of such work when negotiating agreements for specific literary works, audio works and comics with the Retained Tencent Group, and such agreements will specify the price that the Retained Tencent Group will charge the end users for the literary works, audio works and comics. If the price charged by the Retained Tencent Group to its end users in such agreements is substantially lower than the price proposed by the Group, the Group has the discretion not to enter into such agreements with the Retained Tencent Group to ensure that the arrangement will not be detrimental to the interests of the Group.

The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2024 IP Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs under the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement for the two years ended December 31, 2022 and the six months ended June 30, 2023 are set out as follows:

	For the year		For the
	ended December 31,		six months
	2021	2022	ended
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	June 30,
			2023
			<i>(RMB'000)</i>
			(unaudited)
Total fees paid by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	1,186,277	1,228,522	694,994

LETTER FROM THE BOARD

Proposed Annual Caps and Basis of Determination

The proposed annual caps for the revenue of the Company derived from the IP Cooperation CCTs under the 2024 IP Cooperation Framework Agreement for the three years ending December 31, 2026 are set out as follows:

	For the year ending December 31,		
	2024	2025	2026
	(RMB'000)	(RMB'000)	(RMB'000)
Total fees payable by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	2,156,000	2,382,000	2,695,000

The above annual caps for the three years ending December 31, 2026 were determined taking into account the following factors.

- (1) *Fixed fee model for licensing of Scripts IPs:* New Classics Media licenses its Scripts IPs to online video platforms, based on which the online video platforms select production houses to produce the pertinent films and television series. Such business model enables New Classics Media to fully unlock its core competency in content planning and production, and to secure the buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time compared with the traditional production model. This business model is also welcomed by online video platforms because, from the perspective of online video platforms, it aligns with their strategy for high-quality content by enabling them to secure high quality IPs and content in advance while maintaining production flexibility. With reference to the historical revenue generated under such business model and based on the current negotiation with various online video platforms, including the Retained Tencent Group, the parties plan to increase the cooperation based on such business model. The potential licensing fees generated from such business model and the annual increase are estimated, taking into account, including but not limited to, the historical and the estimated popularity and commercial value of the Scripts, length and form of the adaptations, estimated revenue to be generated from the adaptations of Scripts IPs and investment and production costs required for subsequent adaptation and monetization of the Scripts IPs.
- (2) *Business strategy of the cooperation with the Retained Tencent Group:* The Group cooperates with different departments of the Retained Tencent Group on the adaption of the Group's literary works into games, films, televisions, comics and/or animations. The Group intends to expand its IP operation capability, of which the Group licenses its IPs to industry-leading developers, including the Retained Tencent Group, for content adaptation. To facilitate IP licensing, the Group has established an IP-focused intermediate business platform with key functional segments including IP screening, IP planning, and ecosystem partnerships expansion. The Group is dedicated to building a deep and immersive IP universe. Apart from third-party partners across

LETTER FROM THE BOARD

the industry, the Retained Tencent Group plays a significant role in adapting and distributing the Group's IP to maximize the commercial value of its content. The collaboration covers different segments, including comics, films, drama series, and games. In terms of films and television series, New Classics Media and the Retained Tencent Group have established a partnership on serial development of premium IP franchises, in particular, (i) in respect of films, (a) the potential cooperation in four to nine projects in the year ending December 31, 2024 based on the current negotiation, with the estimated fees, depending on the nature and commercial potential of the films, and (b) the estimated annual growth of one to two projects for the two years ending December 31, 2026, which is estimated based on the current negotiation and with reference to the expansion of domestic film industry with the year-on-year growth rate of 17.33% in terms of the total revenue generated from audiovisual network services for the six months ended June 30, 2023 according to the statistics published by National Radio and Television Administration, and (ii) in respect of television series, (a) the potential cooperation in three to seven projects in the year ending December 31, 2024 based on the current negotiation, with the estimated fees depending on the nature and commercial potential of the television series, and (b) the estimated annual growth of one or two projects for the two years ending December 31, 2026, which is estimated with reference to the expansion of domestic radio and television industry with the aforesaid growth rate. In terms of games, (a) the Group and the Retained Tencent Group intend to cooperate in one to three projects in the year ending December 31, 2024 based on the current negotiation, with the estimated fees ranging from RMB10 million to RMB80 million per project, depending on the nature, popularity and commercial potential of the games, and (b) the estimated annual growth of one project for the two years ending December 31, 2026, which is estimated based on the current negotiation and with reference to the aforesaid growth of the intellectual property market according to Analysys. Leveraging the synergy of such cooperation, the Company expects a corresponding increase in revenue generated from IP Cooperation CCTs.

- (3) the Board has estimated the revenue to be derived from the IP Cooperation CCTs for the year ending December 31, 2024, 2025 and 2026 taking into account (i) the annual increase of the projected number of Scripts IPs for each of the three years ending December 31, 2024, 2025 and 2026 in light of the current negotiation with the Retained Tencent Group, (ii) the historical data and the compound annual growth rate of 10% on the revenue derived from the IP Cooperation CCTs for the three years ended December 31, 2022, and (iii) the compound annual growth rate of 8% of the number of the Group's intellectual properties available for licensing and adaptation and the increase in monetization value of the Group's IPs whereby its literary titles grew from 13.9 million as of December 31, 2020 to 16.1 million as of December 31, 2022.

LETTER FROM THE BOARD

Reasons and Benefits for Entering into the 2024 IP Cooperation Framework Agreement

The Group generated revenues by monetizing the Group's vast literary contents in various manners through its own platforms as well as other channels including the Retained Tencent Group Channels, including, among others, copyright licensing for adaptation of the Group's literary works into films, television and web series, games and animations. The Retained Tencent Group is a technology company headquartered in the PRC, and is primarily engaged in communication, social, digital content, games, advertising, fintech and cloud services in the PRC with a vast user base. The Group's cooperation with the Retained Tencent Group will continue to maximize the commercial value of the literary works of the Group and further enhance the business growth of the Group. Notably, the Retained Tencent Group is also among the top operators of online video platforms in the PRC and the cooperation with the Retained Tencent Group on the licensing of Scripts IPs would allow the Company to leverage the resources of the Retained Tencent Group to unleash the competency of the Group in content planning and production.

INTERNAL CONTROL MEASURES

In order to protect the interest of the Independent Shareholders, the Company has implemented internal procedures to ensure that the continuing connected transactions are undertaken, and the underlying transaction agreements are entered into, pursuant to the relevant terms of the respective framework agreements.

The Group's Business Development Team will seek to solicit cooperation with at least two other Independent Third Parties to the extent commercially practicable, and will compare the commercial terms offered by the Independent Third Parties with those offered by the Retained Tencent Group in respect of all the continuing connected transactions of the Group entered into with the Retained Tencent Group.

In making the decision as to whether the Group will cooperate with the Retained Tencent Group, the Business Development Team will also consider other commercial factors, such as the potential of the intellectual properties, the prevailing market pricing, the prospects of the intellectual property cooperation, with a view to maximize the commercial value of the relevant intellectual properties. The Business Development Team is required to comply with the pricing policies for the continuing connected transactions with the Retained Tencent Group as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policies. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2024 Joint Investment Agreement and the 2024 IP Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the costs/fees (as the case may be) shall be in line with or better than prevailing market rates and in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Furthermore, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any Independent Third Party), the Company has established a standard procedure to examine cooperation and its underlying agreement by taking into account various commercial factors. Before entering into an agreement, legal affairs department and finance department of the Company will conduct feasibility study and separate review of the cooperation and consider terms in respect of the Company's rights, obligations and power, and the benefits and risks of such cooperation on a case-by-case basis. No common director, senior management or staff of the Group and the Retained Tencent Group will be involved in the above internal approval process.

INFORMATION ON THE PARTIES

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

Tencent and its subsidiaries are principally engaged in the provision of communication, social, digital content, games, online advertising, fintech and cloud services in the PRC. Tencent Computer is principally engaged in the provision of value-added services and online advertising in the PRC.

LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement is more than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement, annual review and independent Shareholders' approval under Chapter 14A of the Listing Rules.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular, which contains its recommendation to the Independent Shareholders in relation to (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026). Your attention is also drawn to the letter of advice from the Independent Financial Advisor set out on pages 22 to 42 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026), and the principal factors and reasons taken into account in arriving at its recommendation.

LETTER FROM THE BOARD

NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 49 to 50 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 (i) the re-election of retiring Director, (ii) the 2024 Joint Investment Agreement and (iii) the 2024 IP Cooperation Framework Agreement.

FORM OF PROXY

A form of proxy is enclosed 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 (<http://ir.yuewen.com>). Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the Extraordinary General Meeting if they so wish and in such event the form of proxy shall be deemed to be revoked.

VOTING BY POLL

Tencent and its associates, namely THL A13 Limited (directly holding 268,600,500 Shares, representing 26.25% of the issued Shares as at the Latest Practicable Date), Qinghai Lake Investment Limited (directly holding 230,705,634 Shares, representing 22.54% of the issued Shares as at the Latest Practicable Date), and Tencent Mobility Limited (directly holding 78,337,470 Shares, representing 7.65% of the issued Shares as at the Latest Practicable Date) are required under the Listing Rules to abstain from voting on the resolution on approving (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement, at the Extraordinary General Meeting. Please refer to Appendix II to this circular for further details. 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 resolution.

Pursuant to Rule 13.39(4) of the Listing Rules and article 13.6 of the Articles of Association, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the Extraordinary General 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. Accordingly, the resolution set out in the notice will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid Share of which he/she is the holder. A Shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she uses in the same way.

LETTER FROM THE BOARD

OPINION FROM THE BOARD

The Directors (excluding the independent non-executive Directors whose view has been included in the section headed “Letter from the Independent Board Committee” of this circular) are of the view that the terms of (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) are conducted in the ordinary and usual business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors have formed the Independent Board Committee for the purposes of advising the independent Shareholders in respect of (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and whose views and recommendation have been included in the section headed “Letter from the Independent Board Committee” of this circular.

Mr. James Gordon Mitchell, Mr. Hou Xiaonan and Mr. Xie Qinghua, all being Directors, have abstained from voting on the relevant Board resolutions approving each of (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement and the transactions contemplated thereunder, due to their relationship with Tencent. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under each of (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement.

RECOMMENDATION

The Directors consider that the proposed resolutions for (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement are in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favor of the resolutions to be proposed at the Extraordinary General Meeting.

The Independent Board Committee, having taken into account the advice of Somerley, consider that (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the transactions contemplated thereunder are on normal commercial terms, 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 resolution in respect of (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the transactions contemplated thereunder at the Extraordinary General Meeting.

Yours faithfully
By order of the Board
CHINA LITERATURE LIMITED
Mr. James Gordon Mitchell
Chairman of the Board and Non-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 2024 Joint Investment Agreement and the 2024 IP Cooperation Framework Agreement.



CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

November 20, 2023

To the Independent Shareholders

Dear Sirs or Madams,

THE 2024 JOINT INVESTMENT AGREEMENT AND THE 2024 IP COOPERATION FRAMEWORK AGREEMENT

We refer to the circular dated November 20, 2023 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 (i) the 2024 Joint Investment Agreement and (ii) the 2024 IP Cooperation Framework Agreement 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. Somerley 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 Somerley as set out in this circular, we consider that each of the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholder as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve (i) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026).

Yours faithfully,

The Independent Board Committee

Ms. YU Chor Woon Carol

Ms. LEUNG Sau Ting Miranda

Mr. LIU Junmin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

November 20, 2023

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works, including the proposed annual caps for the three years ending December 31, 2026 (the "**IP Cooperation Caps**"), pursuant to the 2024 IP Cooperation Framework Agreement (i.e. the IP Cooperation CCTs), and (ii) the cooperation on the joint investment in the films, television series, games, animations, comics and other products between the Group and the Retained Tencent Group, including the proposed annual caps for the three years ending December 31, 2026 (the "**Joint Investment Caps**"), pursuant to the 2024 Joint Investment Agreement (the "**Joint Investment CCTs**", together with the IP Cooperation CCTs, the "**Continuing Connected Transactions**"), for which the Independent Shareholders' approval is being sought. Details of the Continuing Connected Transactions are contained in the circular of the Company to the Shareholders dated November 20, 2023 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

As at the Latest Practicable Date, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2024 IP Cooperation Framework Agreement and (ii) the 2024 Joint Investment Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the highest applicable percentage ratio in respect of each of the IP Cooperation Caps and the Joint Investment Caps is more than 5%, the transactions contemplated under each of (i) the 2024 IP Cooperation Framework Agreement and (ii) the 2024 Joint Investment Agreement are therefore subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Tencent's interests in the 2024 IP Cooperation Framework Agreement and the 2024 Joint Investment Agreement, Tencent and its associates are required under the Listing Rules to abstain from voting on the relevant resolutions to approve (i) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) at the Extraordinary General Meeting.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin, has been established to advise the Independent Shareholders as to whether (i) the 2024 IP Cooperation Framework Agreement and (ii) the 2024 Joint Investment Agreement and the transactions contemplated thereunder (including the respective proposed annual caps) are in the ordinary and usual course of business of the Group, on normal commercial term, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there was no engagement between the Company and Somerley. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, the Retained Tencent Group and their respective subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that such information, facts and opinions were true, accurate and complete in all material aspects and will remain so up to the time of the Extraordinary General Meeting. We have reviewed, among others, (i) the 2024 IP Cooperation Framework Agreement, (ii) the 2024 Joint Investment Agreement, (iii) the annual report of the Company for the year ended December 31, 2022, (iv) the interim report of the Company for the six months ended June 30, 2023, and (v) other relevant information contained in the Circular. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, the Retained Tencent Group and their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Continuing Connected Transactions (including the respective proposed annual caps), we have taken into account the principal factors and reasons set out below:

INFORMATION ON THE PARTIES

The Group

The Group is principally engaged in online literature business, and is a pioneer of China's online literature market. As stated in the Company's 2022 annual report, with online literature as its cornerstone and intellectual property ("IP") development as the growth accelerator, the Group has built an IP ecological business matrix with industry-wide partners in an open manner to create the most valuable IP ecosystem for creators. In addition, the Group cultivates and develops core IP and derived digital entertainment forms, including literature, animation, film and television, games, etc., and strives to integrate with real life offline to comprehensively meet users' spiritual needs and create good stories. The Shares are listed on the Stock Exchange, and the Company had a market capitalisation of approximately HK\$29.4 billion as at the Latest Practicable Date.

The Group recorded total revenues of approximately RMB7.6 billion in 2022, representing a decrease of approximately 12.0% from approximately RMB8.7 billion in 2021, which was mainly due to the decline in revenues from the Group's online business (comprising online paid reading, online advertising and distribution of third-party online games on the Group's platform), as a result of the reduction in marketing spending on user acquisition. Solid growth in revenues from the Group's television and web series, films, animation series, and licensing of copyrights was achieved during the year. Total revenues of the Group were approximately RMB3.3 billion in the first half of 2023, as compared to approximately RMB4.1 billion in the same period last year. The decrease was mainly due to a decrease in revenues generated from television and web series as well as films due to fewer projects being released during the period.

Shanghai Yueting, an indirectly wholly-owned subsidiary of the Company, 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.

Tencent

Tencent and its subsidiaries (excluding the Group) are principally engaged in communication, social, digital content, games, advertising, fintech and cloud services in the PRC with a vast user base. According to its 2023 interim results, as at June 30, 2023, Tencent's major social communication platforms, being Weixin and WeChat, had a combined monthly active users of approximately 1,327 million, and its fee-based value-added services registered subscription, mainly video and music subscriptions, reached 241 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Tencent Computer, a wholly-owned subsidiary of Tencent, is principally engaged in the provision of value-added services and online advertising in the PRC.

Based on our discussions with the management of the Group, the Group has a number of business cooperation with the Retained Tencent Group, which are complementary and beneficial to each other.

(A) The 2024 IP Cooperation Framework Agreement

1. Background to and reasons for the IP Cooperation CCTs

In recent years, the Group continued to expand its investment in premium content and develop its anti-piracy measures and content ecosystem of its online reading business. Approximately 740,000 writers, 1,300,000 literary works, and over 58.5 billion Chinese characters in aggregate were added to the Group's online reading platform during 2022 and the first half of 2023. In addition, the Group continued to develop visualized content by adapting its literary stories into other formats such as television and web series, film, animation and comics, in order to expand its IP influence and unlock IP value, among others. Such adaptations are conducted through the Group's own platforms and other channels, such as the Retained Tencent Group's channels. Given that the Retained Tencent Group is one of the industry-leading partners in the content adaptation in the PRC and has a vast user base, the Group's cooperation with the Retained Tencent Group will continue to maximize the commercial value of the literary works of the Group and further enhance the business growth of the Group.

New Classics Media, a wholly-owned subsidiary of the Group principally engaged in the production and distribution of television series and movies, would pick certain Scripts IPs for selection by the online video platforms (including the Retained Tencent Group), followed by negotiations on licensing fees for the selected Scripts IP. The parties would agree on a fixed amount of licensing fee, and the online video platforms would select production houses to produce the pertinent television series and films. Such business model enables New Classics Media to secure buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time (the fixed fee model will not be dependent on future revenue or profit related to a particular IP right) compared with the traditional production model (where New Classics Media is in charge of the subsequent development, production and distribution). As stated in the letter from the Board, this fixed fee model is also welcomed by online video platforms because, from the perspective of online video platforms, it aligns with their strategy for high-quality content by enabling them to secure high quality IPs and content in advance while maintaining production flexibility.

As the Retained Tencent Group is among the top operators of online video platforms in the PRC, the cooperation with the Retained Tencent Group on the licensing of Scripts IPs would allow the Company to leverage the resources of the Retained Tencent Group to unleash the competency of the Group in content planning and production. For example, as advised by the management of the Group, *The Road to Ordinary* (平凡之路) was one of the successful television series jointly produced by New Classics Media and the Retained Tencent Group and adapted from the Group's Scripts IPs, and it was highly popular during its broadcast run on Tencent and other third-party online video platforms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The current cooperation in content adaptation, distribution and/or licensing of the Group's IPs are governed by the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement, which were approved by the then independent shareholders of the Company at the shareholders' meetings held on December 9, 2020 and December 9, 2021, respectively. Each of the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement will expire on December 31, 2023.

Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2024 IP Cooperation Framework Agreement on August 10, 2023 to continue and govern the abovementioned cooperation from 2024 to 2026. The scope of the 2024 IP Cooperation Framework Agreement has covered the cooperation under the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement.

As advised by the management of the Group, the transactions under the 2024 IP Cooperation Framework Agreement are non-exclusive in nature, such that the Group is entirely free to choose its partners and platforms, and has no obligation to engage the Retained Tencent Group to carry out the relevant transactions.

2. Principal terms of the 2024 IP Cooperation Framework Agreement

The principal terms for the 2024 IP Cooperation Framework Agreement are summarised below. For further details, please refer to the section headed "2. 2024 IP Cooperation Framework Agreement" in the letter from the Board.

General

On August 10, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2024 IP Cooperation Framework Agreement, in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including literary works, audio works, comics, live-action films and television series and animations) and/or licensing of the elements of these works (including artistic elements, musical elements, textual elements and audio-visual elements).

For the avoidance of doubt, the IP Cooperation CCTs shall exclude any transactions which involve the formation of a joint venture entity or other form of joint arrangement in connection with, or for the purpose of, the adaptation of IP rights to the Group's literary works, as we understand from the management of the Group that they will be covered under the separate 2024 Joint Investment Agreement, as further discussed in section below headed "(B) The 2024 Joint Investment Agreement". If such joint venture entity is a subsidiary of Tencent, any type of cooperation contemplated by the IP Cooperation CCTs with such joint venture entity will be subject to the IP Cooperation Caps as further described below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Forms of cooperation

Pursuant to the 2024 IP Cooperation Framework Agreement, the forms of cooperation include the licensing by the Group of the followings to the Retained Tencent Group:

- (i) the adaptation rights, adapting literary works into live-action films and television series, games, audio works, comics or animations;
- (ii) the information network transmission rights, broadcasting rights and projection rights of works (including literary works, audio works, comics, live-action films and television series and animations); and
- (iii) the elements of literary works, audio works, live-action films and television series, comics and animations (including artistic elements, musical elements, textual elements and audio-visual elements).

In respect of literary works, audio works and comics distributed on the platforms that are not operated by the Group, the Group does not have the power in determining the final price of literary works, audio works and comics distributed on such platforms. Notwithstanding the above, the Business Development Team will adopt comparative pricing proposals when negotiating agreements for specific literary works, audio works and comics with the Retained Tencent Group, and such agreements will specify the price that the Retained Tencent Group will charge the end users. If the final price charged by the Retained Tencent Group to its end users in such agreements is substantially lower than the price proposed by the Group, the Group has the discretion not to enter into such agreements with the Retained Tencent Group to ensure that the arrangement will not be detrimental to the interests of the Group.

Fee arrangements

The fee arrangements relating to the IP Cooperation CCTs, which are the same as that of the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement, shall be as follows:

- (a) fixed fee,
- (b) revenue/profit sharing, or
- (c) a mixture of the above (a) and (b).

To determine the fee arrangements of the IP Cooperation CCTs, the Board takes into account (i) the potential commercial value and the popularity of the relevant IP, (ii) forms of cooperation, and (iii) length and form of the adaptations. Generally, there is a fixed fee for the IP Cooperation CCTs, and for some adaptations like games, the Group is further entitled to revenue/profit sharing agreed upon on a case-by-case basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing policies

The pricing policies will vary from project to project. As to the adaptation of the Group's literary works into games, films, televisions, comics and/or animations, the pricing policies will be determined after taking into account (i) various commercial factors such as the nature, popularity and commercial potential of the subject IPs, market practice for similar IPs and the prevailing market price and average revenue/profit sharing percentage in the industry, ranging from 2% to 50% (portion to be shared by the Group), (ii) whether the transactions may involve other third parties (such as downstream production and distribution partners and writers), and (iii) the range of ancillary rights to be agreed (such as co-investment rights and co-development rights).

As to the licensing of Scripts IPs, the pricing policies will be determined after taking into account the estimated commercial value of the Scripts IP-based and pertinent television series and films, which in turn depends on (a) various commercial factors such as advertising revenue, audiences, expected rating, popularity, distribution cycle, price per episode and market comparable, (b) maturity and completeness of the Scripts IPs and their end user market, (c) financial resources and capabilities of online video platforms, and (d) mode and potential of subsequent adaptations (including the range of ancillary rights to be adapted, distribution channels, involvement of third parties (such as downstream production and distribution partners) and potential cooperation between the Group and the Retained Tencent Group thereof).

As to the audio works and comics distributed on the platforms that are not operated by the Group, the pricing policies will be determined with reference to the prevailing market price and average revenue/profit sharing percentage in the industry, ranging from 50% to 80% (portion to be shared by the Group, being the owner of the relevant IP), and various commercial factors, including the nature, popularity and commercial potential of the relevant audio works and comics, and the quantity and quality of the Retained Tencent Group's distribution platforms. The fixed licensing fees shall be equal to or more than the proportion of revenue/profit to be shared to the Group calculated by the above method.

As to the literary works distributed on the platforms that are not operated by the Group, the pricing policies will be determined with reference to the prevailing market price in the industry, and various commercial factors, including the nature, popularity and commercial potential of the relevant literary works, and the quantity and quality of the Retained Tencent Group's distribution platforms.

As to the films, television series and animations distributed on the platforms that are not operated by the Group, the pricing policies will be determined with reference the fixed production fees and/or distribution fees with reference to the prevailing market prices in the industry, and various commercial factors, including the nature, popularity, quantity, quality and commercial potential of the films, television series, and animations to be produced and distributed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Term

Subject to the approval from the Independent Shareholders at the Extraordinary General Meeting, the 2024 IP Cooperation Framework Agreement has a term from January 1, 2024 to December 31, 2026.

Payment and settlement terms

Payment and settlement terms shall be specified in each of the implementation agreements to be entered into under the 2024 IP Cooperation Framework Agreement.

Our assessment of the terms of the IP Cooperation CCTs

We have discussed with the management of the Group the terms under the 2024 IP Cooperation Framework Agreement. We have also obtained and reviewed lists of the existing transactions under the 2021 Distribution Framework Agreement and 2021 IP Cooperation Framework Agreement. We note that in terms of fees, the distribution of the Group's films and television series and the licensing of the Scripts IPs, in aggregate, represented approximately 70% of all IP Cooperation CCTs during the period under review. Our analysis below focuses on the above two types of cooperation.

We have obtained and reviewed five sample contracts between the Group and the Retained Tencent Group relating to the distribution of the Group's films and television series and the licensing of the Scripts IPs, which were selected on a random basis from all such contracts executed during the period from January 1, 2021 to June 30, 2023. The management of the Group has confirmed to us that they have provided to us an exhaustive list of contracts for the above transactions and time period. Based on our review of the selected sample contracts, we note the following:

- (i) the distribution of the Group's films and television series generally followed the fixed fee arrangements, with an agreed fixed fee of up to RMB300 million, and the relevant value for each type of content adaptation varied significantly, which in turn depends on various commercial and other factors, as detailed in the above; and
- (ii) the licensing of Scripts IPs followed a fixed fee model and the licensing fees vary from approximately RMB100 million to approximately RMB200 million, depending on the attributes of the particular Scripts IPs.

As confirmed by the management of the Group, the variety of fee arrangements included in the 2024 IP Cooperation Framework Agreement is to enhance the Group's flexibility to formulate the optimal pricing terms. Generally, a fixed fee is adopted for the distribution of the Group's films and television series and the licensing of the Scripts IPs. On the other hand, the revenue/profit sharing arrangement is to potentially allow the Group to share the potential upside, which however could only be known after the actual broadcast.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed similar cooperation arrangements between the Group and Independent Third Parties relating to the distribution of the Group's films and television series, selected on a random basis from all such contracts executed during the period from January 1, 2021 to June 30, 2023. The management of the Group informed us that for each of the distribution of the Group's films and television series, the relevant fees across different IPs, regardless of cooperation with the Retained Tencent Group or the Independent Third Parties, are not directly comparable due to the uniqueness of each individual IP. As confirmed by the management of the Group, there was no similar cooperation arrangement between the Group and the Independent Third Parties in respect of licensing of Scripts IPs during the abovementioned period. Despite the above, based on our review of the similar cooperation arrangements between the Group and the Independent Third Parties, we note that:

- (i) cooperation similar to the distribution of the Group's television series followed a fixed fee arrangements with an agreed fixed fee of up to approximately RMB330 million, and the relevant licensing fee varied depends on various factors; and
- (ii) cooperation similar to the distribution of the Group's films followed a fixed fee model with the licensing fees of up to RMB50 million for a particular film, depending on the box office revenue for the subject film released.

Based on our discussions with management of the Group and review of the historical transactions as mentioned above, the fee payments are usually settled on a milestone basis, which is in line with the pricing policies of the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement and the payment terms between the Group and Independent Third Parties.

The fee arrangements for the IP Cooperation CCTs are summarised in the section above. We understand that the exact terms of the underlying transactions will only be agreed upon the entering into the implementation agreements. As confirmed by the management of the Group, for each of the IP Cooperation CCTs, the fee arrangements are consistent with the historical and the prevailing commercial practices in relation to the relevant cooperation between the Group and the Retained Tencent Group and/or Independent Third Parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *The IP Cooperation Caps*

(a) *Review of historical transactions*

Set out below are the historical transaction amounts and the relevant annual caps in respect of the IP Cooperation CCTs for the two years ended December 31, 2021 and 2022, and for the six months ended June 30, 2023 (the “**Review Period**”):

	For the year ended December 31, 2021	2022	For the six months ended June 30, 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total fees paid by the Retained Tencent Group to the Group (<i>Note 1</i>)	1,186,277	1,228,522	694,994
Relevant annual caps (<i>Note 2</i>)	2,761,000	3,320,500	3,914,000
Utilization rate	43.0%	37.0%	35.5% (<i>Note 3</i>)

Notes:

- (1) *Represented the sum of the historical transaction amounts derived from the IP Cooperation CCTs under the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement*
- (2) *Represented the sum of the relevant annual caps under the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement for each of the three years ended/ending December 31, 2021, 2022 and 2023*
- (3) *Based on the relevant six months transaction amount and pro rata annual cap amount*

As shown in the above table, the historical fee paid by the Retained Tencent Group to the Group pursuant to the IP Cooperation CCTs amounted to approximately RMB1.2 billion in 2021 and 2022, and approximately RMB0.7 billion in the first half of 2023. The relevant annual caps were not fully utilised, with utilisation rate ranging from approximately 35.5% to 43.0%, during the Review Period. Based on our discussions with the management of the Group, this was mainly due to the unfavourable macroeconomic environment, including the slowdown in PRC economic growth, the recurrence of COVID-19, and the nationwide lockdown policies that resulted in the reduced investment in the industry. This was also evidenced by fewer television, web series and films projects being released during the year 2022 and the first half of 2023 as compared to the same period in prior year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Assessment of the IP Cooperation Caps*

Set out below are the IP Cooperation Caps under the 2024 IP Cooperation Framework Agreement for the three years ending December 31, 2024, 2025 and 2026:

	For the year ending December 31,		
	2024	2025	2026
	RMB'000	RMB'000	RMB'000
Total fees payable by the Retained Tencent Group to the Group	2,156,000	2,382,000	2,695,000

The IP Cooperation Caps for the years 2024, 2025 and 2026 represent decreases of approximately 44.9%, 39.1% and 31.1% respectively, compared to the sum of the annual caps set for the year 2023 under the 2021 Distribution Framework Agreement and the 2021 IP Cooperation Framework Agreement.

As set out in the letter from the Board, the IP Cooperation Caps were determined after taking into account, among others, (i) the fixed fee model for licensing of Scripts IP, (ii) the business strategy of the Group's IP cooperation with the Retained Tencent Group, and (iii) the growing number of the Group's IPs available for licensing and adaptation and the increase in monetary value of these IPs.

In assessing the reasonableness of the IP Cooperation Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that the distribution of the Group's films and television series and the licensing of the Scripts IPs, in aggregate, represents over 80% of the IP Cooperation Caps for each of the next three years. As set out in the letter from the Board, New Classics Media and the Retained Tencent Group have established a partnership on serial development of premium IP franchises in the films and television series adaptation cooperation. The management of the Group further informed us that New Classics Media currently has over 100 Scripts IPs (either completed scripts or scripts under development) suitable for licensing and adaptation in its reserve, part of which are intended to be licensed to online video platforms, including the Retained Tencent Group.

In respect of the films and television series distribution cooperation for the next three years, the Company has mainly taken into account the number of films and television projects, and the related estimated fees under the current negotiation with the Retained Tencent Group. As advised by the management of the Group, the Group and the Retained Tencent Group cooperated in the production and distribution of four films projects and television series projects during the year 2022. In addition, there are four to nine film projects and three to seven television series projects under the current negotiations with the Retained Tencent Group for the year 2024, with one to two additional projects for each of the years 2025 and 2026 on top of the estimated number of projects in 2024. The estimated fees depend on the nature and commercial potential of the films or television series, and are expected to be referenced to similar types of projects in the past, according to the management of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the licensing of Scripts IPs for the next three years, the Company has mainly taken into account the number of Scripts IPs suitable for licensing and adaptation and the related estimated licensing fees under the current negotiation with various online video platforms, including the Retained Tencent Group. As advised by the management of the Group, six Scripts IPs were licensed to the Retained Tencent Group during the year 2022. In addition, the estimated number of Scripts IPs to be licensed to the Retained Tencent Group is expected to be three to five for each of the years 2024, 2025 and 2026. Licensing fee of a particular Scripts IP is estimated after taking into account, among others, the historical and the estimated popularity and commercial value of the Scripts IP, length and form of the adaptations, estimated revenue to be generated from the adaption of Scripts IP and investment and production costs required for subsequent adaptation and monetization of the Scripts IP.

As set out in the letter from the Board, the number of the Group's IPs available for licensing and adaptation grew from approximately 13.9 million as at December 31, 2020 to approximately 16.1 million as at December 31, 2022, with a compound annual growth rate of approximately 8%. We also note that approximately 350,000 literary works were added to the Group's online reading platform during the first half of 2023. To facilitate IP licensing, the Group intends to expand its IP operation capability and has established an IP-focused intermediate business platform in this regard. It is expected that the Group will continue to license its IPs to industry-leading developers, including the Retained Tencent Group, for content adaptation and distribution. Given that the Retained Tencent Group and the Group have been cooperating with each other on the adaptation of the Group's literary works in other formats, such as films and television series, we concur with the management's view that the synergetic cooperation between two groups will bring additional licensing fee to the Group in near future.

Our general view

As discussed earlier, the Retained Tencent Group plays a significant role in adapting and distributing the Group's IP to maximize the commercial value of its content. There are a number of films and television series adaptation and/or distribution projects, as well as Scripts IPs licensing under current negotiation with Retained Tencent Group. These suggested that future cooperation between the Group and the Retained Tencent Group are expected to continue. We consider it reasonable for the Company to use the above factors in determining the IP Cooperation Caps, and it is in the interests of the Group and the Shareholders to determine the IP Cooperation Caps in a way that can accommodate the potential growth of the Group's business. Provided that the IP Cooperation CCTs are subject to annual review by the independent non-executive Directors and auditors of the Company (as summarised below), as required under the Listing Rules and other internal control procedures to safeguard the Group's interest (as summarised in the section below headed "INTERNAL CONTROL MEASURES"), the Group would have desirable flexibility in conducting its business if the IP Cooperation Caps are tailored to future business activities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(B) The 2024 Joint Investment Agreement

1. Background to and reasons for the Joint Investment CCTs

Since 2018, the Group has explored joint investment with the Retained Tencent Group for the adaptation of popular IP (including the Group's IP) into the television series, films and other forms of media, which will enable the Group to reach more potential users and attract viewers to read the original literary content and purchase various entertainment products adapted from the literary content, thereby diversifying and expanding the reader base, increasing the potential revenue streams and enhancing the popularity and branding of the Group.

Based on our discussions with the management of the Group, a management team, with cross-sector knowledge in both online literature and drama production including the experienced management of New Classics Media, has been established to increase the number of television series and films adapted from the Group's IP. When determining the forms of cooperation with the Retained Tencent Group and/or other third parties in respect of a particular IP, such as licensing of the relevant IP for fee income, or making capital investments in the production of other entertainment formats for investment return, the Group would consider various commercial factors and decide the best way of cooperation to maximize the value of the relevant IP. For example, *Life is A Long Quiet River* (心居) released in 2022 was one of the first-rate drama series jointly invested by the Group and the Retained Tencent Group.

The current cooperation on the joint investments between two groups are governed by the 2021 Joint Investment Agreement, details of which were set out in the announcement of the Company dated August 11, 2020. The 2021 Joint Investment Agreement will expire on December 31, 2023.

Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2024 Joint Investment Agreement on August 10, 2023 to continue and govern the abovementioned cooperation from 2024 to 2026.

2. Principal terms of the 2024 Joint Investment Agreement

The principal terms for the 2024 Joint Investment Agreement are summarised below. For further details, please refer to the section headed "1. 2024 Joint Investment Agreement" in the letter from the Board.

General

On August 10, 2023, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2024 Joint Investment Agreement, in relation to the cooperation on the joint investment in the films, television series, games, animations, comics and other products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Forms of cooperation

Pursuant to the 2024 Joint Investment Agreement, the Group shall cooperate with the Retained Tencent Group in respect of:

- (i) making joint investments in the production of the films and television series,
- (ii) making joint investments in the research and development of games, animations, comics and other products, and
- (iii) forming joint ventures or other joint arrangements (whether as a partnership, a company or in any other form) for the purpose of the above joint investments.

Pricing policy

Specific commercial terms relating to the joint investment projects shall be determined after arm's length negotiation between the parties with reference to factors such as ownership of the copyrights, costs and expenses involved in the development, production and distribution of the relevant IP contents, revenue sharing or profit sharing arrangements, the equity interests of the parties in the joint arrangements, and the settlement of tax.

The specific investment amount, investment proportion, and proportion of investment return shall be determined on a case-by-case basis. Generally, unless otherwise agreed by the parties, the Group's portion of investment returns shall be determined with reference to the proportion of investment amount that the Group has invested in the relevant projects. The Group will only enter into an investment agreement with the Retained Tencent Group when the agreement is in the best interests of the Company and the Shareholders as a whole.

Term

Subject to the approval from the Independent Shareholders at the Extraordinary General Meeting, the 2024 Joint Investment Agreement has a term from January 1, 2024 to December 31, 2026.

Payment and settlement terms

The specific commercial terms of the investment and payment and settlement terms shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2024 Joint Investment Agreement.

Our assessment of the terms of the Joint Investment CCTs

We have discussed with the management of the Group the terms under the 2024 Joint Investment Agreement. We have also obtained and reviewed lists of the existing transactions under the 2021 Joint Investment Agreement. We note that in terms of actual investment amount, films and television series represented over 90% of all Joint Investment CCTs during the period under review. Our analysis below focuses on joint investments on films and television series.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained and reviewed five sample contracts between the Group and the Retained Tencent Group relating to the joint investments in films and television series, which were selected on a random basis from all such contracts executed during the period from January 1, 2021 to June 30, 2023. The management of the Group has confirmed to us that they have provided to us an exhaustive list of contracts for the above transactions and time period. The findings based on our review of the selected sample contracts are set out below:

- (i) the specific terms of joint investments, including the investment amount, proportion and investment return, in the films and television series were generally determined on a case-by-case basis, referencing to the scale, nature, popularity and commercial potential of the literary works, and various commercial factors as discussed above;
- (ii) the investment cost for a particular film or television series project under the joint investment varied significantly, and ranged from RMB80 million to RMB400 million per project, as advised by the management of the Group; and
- (iii) the return of the joint investments made were in proportion to the respective investment amount made by the relevant parties, which might include the Group, the Retained Tencent Group, and/or other third parties. In addition, the investment proportion of the Group varied significantly from projects to projects, from approximately 2% to 60%. We understand from the management of the Group that (i) its level of control over a particular project was generally in line with the Group's investment proportion in that project, and (ii) in the circumstances where the Group invests as a minority, certain protection clauses would generally be in place, including the right to veto any dilution to investment, and the right to review financial information upon profit distribution.

Based on our discussions with the management of the Group, due to the uniqueness of each IP content used in the production of relevant films or television series, there were no comparable joint investments for comparison purpose. We have obtained and reviewed joint investments in the films and television series between the Group and Independent Third Parties where the Retained Tencent Group was not involved, which were selected on a random basis from the transaction lists covering the period from January 1, 2021 to June 30, 2023. We note that for each of the samples reviewed, the proportion of investment return were determined with reference to the respective investment amount, which in turn were determined with reference to the costs required for subsequent development, production and distribution of the relevant IP contents. We note that the above was in line with the pricing policy of the 2021 Joint Investment Agreement.

The pricing policy and the key considerations relating to the Joint Investment CCTs are summarised in the section above. We understand that the exact terms of the underlying transactions will only be agreed upon the entering into the investment agreements, which are determined on a case-by-case basis. As part of the Company's internal control measures, solicitation of cooperation with other Independent Third Parties would be sought to the extent commercially practicable for comparison purpose. Otherwise, the explanation on the reasonableness and necessity of cooperation with the Retained Tencent Group, and why it is in the interests of the Group as a whole, would be prepared by the Business Development Team, such that the terms of the Joint Investment CCTs are no less favourable to the Company. For further details, please refer to the section below headed "INTERNAL CONTROL MEASURES".

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *The Joint Investment Caps*

(a) *Review of historical transactions*

Set out below are the historical investment amounts and the relevant annual caps in respect of the Joint Investment CCTs for the Review Period:

	For the year ended December 31,		For the
	2021	2022	six months
	<i>RMB'000</i>	<i>RMB'000</i>	ended June 30,
			2023
			<i>RMB'000</i>
Aggregate amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group (<i>Note 1</i>)	466,057	62,499	1,016
Relevant annual caps	700,000	800,000	950,000
Utilization rate	66.6%	7.8%	0.2%
			<i>(Note 2)</i>

Notes:

- (1) *Represented the aggregate amount of investment cost actually contributed by the Group during the year/period, as opposed to the investment amount committed by the Group during the year/period. As confirmed by the management of the Group, apart from the joint investment amount, other fees or costs payable (or receivable) by the Group to (or from) the Retained Tencent Group in such investment projects, if any, would be covered by separate applicable framework agreement(s)*
- (2) *Based on the relevant actual investment cost contributed by the Group in the joint arrangements in the first half of 2023 and pro rata annual cap amount*

As shown in the above table, the historical aggregate amounts of the investment cost contributed by the Group in the joint arrangements with the Retained Tencent Group pursuant to the Joint Investment CCTs decreased significantly from approximately RMB466.1 million in 2021 to approximately RMB62.5 million in 2022, and decreased further to approximately RMB1 million in the first half of 2023. Utilisation of the relevant annual caps was decreasing, from approximately 66.6% in 2021 to 7.8% to 2022, and further down to 0.1% for the first half of 2023.

Based on our discussions with the management of the Group, the Group contributed investment amount in eight, five and three joint arrangements, substantially relating to films and television series projects, with the Retained Tencent Group in 2021, 2022 and the first half of 2023 respectively. The substantial decline in the Group's aggregate investment cost contributed was mainly due to the postponement, rescheduling and/or cancellation of production and release of certain films and television series projects under the joint arrangements, as a result of the recurrence of COVID-19 and related pandemic control policies, and the unfavourable macroeconomic environment. In particular, pandemic control policies negatively impacted film production projects that are expected to be shown in cinemas.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Assessment of the Joint Investment Caps*

Set out below are the Joint Investment Caps under the 2024 Joint Investment Agreement for the three years ending December 31, 2024, 2025 and 2026:

	For the year ending December 31,		
	2024	2025	2026
	RMB '000	RMB '000	RMB '000
Aggregate amounts of the investment cost to be contributed by the Group in the joint arrangements with the Retained Tencent Group	655,000	785,000	893,000

The Joint Investment Caps for the years 2024, 2025 and 2026 represent decreases of approximately 31.1%, 17.4% and 6.0% respectively, compared to the annual cap set for the year 2023 under the 2021 Joint Investment Agreement.

As set out in the letter from the Board, the Joint Investment Caps were determined after taking into account, among others, (i) the literary contents of the Group and the growth of the IP adaptation market, as discussed in the earlier sections relating to the IP Cooperation CCTs, (ii) the increase in demand of joint investments attributed to the potential growth in the business of the Group and the Retained Tencent Group and expedition of existing projects, and (iii) the expected costs involved in the production and distribution of the films and television services.

In assessing the reasonableness of the Joint Investment Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that the joint investments in films and television series represents over 95% of the Joint Investment Caps for each of the next three years.

When determining the Joint Investment Caps, the Company has mainly taken into account the number of existing and potential films and television series projects to be jointly invested by the Group and the Retained Tencent Group. It is expected that the production and distribution of the existing joint investment projects would accelerate, and there are three to eight films and/or television series projects under the current negotiations with the Retained Tencent Group for the year 2024, with one to two additional projects for each of the years 2025 and 2026 on top of the estimated number of projects in 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our independent research, a recovery in the PRC entertainment industry was noted. According to China Movie Database (中國電影數據信息網), a PRC box office data platform operated by National Commission for the Management of Special Funds for the Development of Film Industry (國家電影事業發展專項資金管理委員會辦公室), total box office revenue in the first six months of 2023 increased to approximately RMB26.3 billion, representing a rebound of approximately 52.9% from approximately RMB17.2 billion for the same period in 2022. During the summer season in July and August 2023, the aggregate box office revenue reached RMB16.5 billion. In addition and as referenced to the letter from the Board, according to the statistics published by National Radio and Television Administration (國家廣播電視總局), for the first six months of 2023, total revenue generated by domestic radio and television industry in the PRC reached approximately RMB624.7 billion, representing a year-on-year growth of approximately 10.9% compared to the same period in 2022. The recovery in the PRC entertainment industry may in turn support investment in film and television industry in the upcoming years.

The estimated investment amount for a particular film or television series project depends on the nature and commercial potential of the project, and is expected to be referenced to similar types of films and/or television series projects in the past, ranging from RMB80 million to RMB400 million per project, according to the management of the Group. The investment proportions of the Group and the Retained Tencent Group are estimated with reference to the historical average investment proportions of similar types of projects, taking into account their respective involvement and roles in the development, production and distribution stages.

Our general view

As discussed earlier, the joint investments between the Retained Tencent Group and the Group will be a mutually beneficial cooperation arrangement. Given that the Retained Tencent Group is one of the industry-leading partners and producers, through the Joint Investment CCTs, the Group is able to leverage the Retained Tencent Group's expertise in the entertainment industry and share risks and rewards of new projects. Currently, there are a number of joint investments entered into, and under current negotiation, with the Retained Tencent Group. The above suggested that the Group is expected to make further capital investments in such (potential) joint investments with the Retained Tencent Group. We consider it reasonable for the Company to use the above factors in determining the Joint Investment Caps, and it is in the interests of the Group and the Shareholders to determine the Joint Investment Caps in a way that can provide the Group with the flexibility in partnering with the Retaining Tencent Group on future projects and decide investment amounts of individual projects based on their respective risk and return profile. Provided that the Joint Investment CCTs are subject to annual review by the independent non-executive Directors and auditors of the Company (as summarised below), as required under the Listing Rules and other internal control procedures to safeguard the Group's interest (as summarised in the section below headed "INTERNAL CONTROL MEASURES"), the Group would have desirable flexibility in conducting its business if the Joint Investment Caps are tailored to future business activities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INTERNAL CONTROL MEASURES

As set out in the letter from the Board, in order to protect the interest of the Independent Shareholders, the Company has implemented internal procedures to ensure that the Continuing Connected Transactions are undertaken, and the underlying transaction/implementation agreements are entered into, pursuant to the relevant terms of the framework agreement.

The Business Development Team will seek to solicit cooperation with at least two other Independent Third Parties to the extent commercially practicable, and will compare the commercial terms offered by the Independent Third Parties with those offered by the Retained Tencent Group in respect of all the Continuing Connected Transactions.

In making the decision as to whether the Group will cooperate with the Retained Tencent Group in relation to the Continuing Connected Transactions, the Business Development Team will consider commercial factors, including the potential of the IP, the prevailing market pricing and the prospects of the IP operation, with a view to maximizing the commercial value of the relevant IP. The Business Development Team is required to comply with the pricing policies for the continuing connected transactions with the Retained Tencent Group as set out in the sections above headed “A.2. Principal terms of the 2024 IP Cooperation Framework Agreement” and “B.2. Principal terms of the 2024 Joint Investment Agreement”, and the internal control team of the Company will regularly monitor the compliance of such pricing policies.

If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2024 Joint Investment Agreement and the 2024 IP Cooperation Framework Agreement will be no less favourable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the costs/fees (as the case may be) shall be in line with or better than market rates and in the best interests of the Company and the Shareholders as a whole. In addition, as part of the Company’s standard procedures, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any Independent Third Party), the legal affairs department and finance department of the Company will conduct feasibility study and separate review on the cooperation and consider terms in respect of the Company’s rights, obligations and power, the benefits and risks of such cooperation on a case-by-case basis before entering into an agreement. We are advised by the management of the Group that no common director, senior management or staff of the Group and the Retained Tencent Group will be involved in the above internal approval process.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained the relevant internal control policies relating to the Continuing Connected Transactions, and we have been confirmed by the management of the Group that the relevant internal control policies have been and will continue to be followed, to ensure the transaction terms with the Retained Tencent Group are no less favourable than those offered by Independent Third Parties to the Group. In our view, the above internal control procedures are important for the conduct of the Continuing Connected Transactions, since exact terms of the transactions will only be agreed upon the entering into the specific agreements. In these circumstances, we concur that the solicitation of cooperation with other Independent Third Parties, and comparison of the terms with those offered by the Retained Tencent Group, will help the Group ensure that the underlying transactions pursuant to each of the 2024 IP Cooperation Framework Agreement and the 2024 Joint Investment Agreement are on no less favourable terms to the Group. In addition, the independent non-executive Directors and auditors of the Company will review the Continuing Connected Transactions each year, details of which are set out in the section below headed “REPORTING REQUIREMENTS AND CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS”.

REPORTING REQUIREMENTS AND CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company’s auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Group’s annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) have exceeded the respective annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements and conditions attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the respective annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the transactions under each of the 2024 IP Cooperation Agreement and the 2024 Joint Investment Agreement not being exceeded, and given the Company's internal control measures as mentioned above in place, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Continuing Connected Transactions (including the respective proposed annual caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Extraordinary General Meeting to approve (i) the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026) and (ii) the 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and as a responsible officer of Somerley, which is licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over fifteen years of experience in the corporate finance industry.

The following is the particular of the Director (as required by the Listing Rules) proposed to be re-elected at the Extraordinary General Meeting.

INDEPENDENT NON-EXECUTIVE DIRECTOR**Ms. Leung Sau Ting Miranda**

Aged 56, is an independent non-executive Director appointed on October 26, 2017. She is the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Ms. Leung is responsible for providing independent opinion and judgment to the Board. She was a trainee at the London office of Slaughter and May from September 1990 to September 1992, an associate in the firm's Hong Kong and London offices from September 1992 to September 2001, and a partner in the firm between September 2001 and November 2016. Ms. Leung was also a director of the Lion Academy Trust from September 2015 to June 2019 and a director of CCBI Metdist Limited from November 2018 to November 2020. She has been a director of Indochina Starfish Foundation since July 2019 and a member of the with-profits committee of the board of Aviva Insurance UK since March 2020. Ms. Leung qualified as a solicitor in England & Wales in December 1992, and as a solicitor in Hong Kong in August 1993. She received her bachelor's degree in arts from Oxford University.

As at the Latest Practicable Date, Ms. Leung did not hold any Shares within the meaning of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, Ms. Leung did not hold any other position with the Company or any other member of the Group, or any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed herein, there is no other matter in relation to the re-election of Ms. Leung that needs to be brought to the attention of the Shareholders and there is no other information relating to Ms. Leung which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

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 1,023,393,477 Shares of nominal value of US\$0.0001 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
Somerley	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Somerley:

- (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, 2022, 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, 2022, being the date to which the latest published audited annual financial statements of the Company were made up.

5. SERVICE CONTRACTS OF DIRECTORS

Each of Mr. Hou Xiaonan and Mr. Huang Yan, as the executive Director, has entered into a service contract with the Company for a term of three years commencing from May 10, 2023 and June 30, 2023, respectively, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

Each of Mr. James Gordon Mitchell, Mr. Xie Qinghua, and Mr. Cao Huayi as the non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from June 30, 2023, May 22, 2023 and May 23, 2022, respectively, and subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

Each of independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from June 30, 2023, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives 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 have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Interests of Directors and Chief Executives of the Company

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company⁽¹⁾ (%)
Mr. James Gordon Mitchell	Beneficial owner	331,352	Long position	0.03
Mr. Cao Huayi	Interest in controlled corporations	41,068,517 ⁽²⁾	Long position	4.01
Mr. Hou Xiaonan	Beneficial owner	2,289,756 ⁽³⁾	Long position	0.22
Mr. Huang Yan	Beneficial owner	3,127,231 ⁽⁴⁾	Long position	0.31

Interests of Directors and Chief Executives in associated corporations of the Company

Name	Name of associated corporations	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the associated corporation (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	16,121,146 ⁽⁵⁾	0.17
	Tencent Music Entertainment Group	Beneficial owner	456	0.00
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	145,805	0.00
Mr. Huang Yan	Tencent Holdings Limited	Beneficial owner	22,500	0.00
Mr. Xie Qinghua	Tencent Holdings Limited	Beneficial owner	166,166 ⁽⁶⁾	0.00
Mr. Cao Huayi	Tencent Holdings Limited	Interest in controlled corporations	270,000 ⁽⁷⁾	0.00

Notes:

- (1) The calculation is based on the total number of 1,023,393,477 Shares in issue as of November 10, 2023.
- (2) As at November 10, 2023, Mr. Cao Huayi was interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and was therefore deemed to be interested in the 35,117,461 Shares and 5,951,056 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (3) As at November 10, 2023, these interests comprised (i) 67,988 Shares, (ii) 28,018 underlying Shares in respect of the RSUs granted to Mr. Hou Xiaonan under 2020 Restricted Share Unit Scheme of the Company, and (iii) 2,193,750 underlying Shares in respect of the Options granted to Mr. Hou Xiaonan under the Share Option Plan.
- (4) As at November 10, 2023, these interests comprised (i) 200,240 Shares, (ii) 276,360 underlying Shares in respect of the RSUs granted to Mr. Huang Yan under the RSU Plan of the Company, and (iii) 2,650,631 underlying Shares in respect of the Options granted to Mr. Huang Yan under the Share Option Plan.
- (5) As at November 10, 2023, these interests comprised (i) 5,339,077 shares of Tencent, (ii) 1,144,220 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 9,637,849 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (6) As at November 10, 2023, these interests comprised (i) 75,659 shares of Tencent, (ii) 90,437 shares underlying Tencent in respect of the awarded shares granted to Mr. Xie Qinghua under share award schemes of Tencent, and (iii) 70 shares underlying Tencent in respect of the options granted to Mr. Xie Qinghua under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (7) As at November 10, 2023, Mr. Cao Huayi was interested in 100% of C-Hero Limited and was therefore deemed to be interested in the 270,000 shares of Tencent interested in by C-Hero Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since December 31, 2022 (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, 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.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, proposed directors and any of their associate(s) had interest in a business which competes or may compete with the business of the Group, or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on websites of the Stock Exchange at www.hkexnews.hk and the Company at <http://ir.yuewen.com> up to and including the date which is 14 days from the date of this circular:

- (a) the 2024 Joint Investment Agreement; and
- (b) the 2024 IP Cooperation Framework Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CHINA LITERATURE LIMITED

阅文集团

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting of China Literature Limited (the “**Company**”) will be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 2:30 p.m. on Monday, December 11, 2023 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 November 20, 2023 (the “**Circular**”).

Ordinary Resolutions

1. To re-elect the Director and authorise the Board of Directors to fix the Director’s remuneration:
 - (a) To re-elect Ms. Leung Sau Ting Miranda as an independent non-executive Director;
 - (b) To authorise the Board to fix the remuneration of the Director.
2. To consider and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

“That:

- (i) the 2024 Joint Investment Agreement and the 2024 IP Cooperation Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the circular of the Company dated November 20, 2023, be and are hereby approved, ratified and confirmed;
- (ii) the proposed annual caps for the continuing connected transactions contemplated under the 2024 Joint Investment Agreement and the 2024 IP Cooperation Framework Agreement as set out in the Circular be and are hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (iii) 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 2024 Joint Investment Agreement (including the proposed annual caps for the three years ending December 31, 2026) and the 2024 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2026).”

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

Chairman of the Board and Non-executive Director

Hong Kong, November 20, 2023

Registered office:

The offices of Maples Corporate Services Limited
PO Box 309, Uglund House
Grand Cayman KY1-1104
Cayman Islands

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

N3 Lujiazui Binjiang Center
No. 5169 Binjiang Avenue
Pudong New Area

Principal place of business in Hong Kong:

Room 1503-04
ICBC Tower
3 Garden Road, Central
Hong Kong

Notes:

- (i) A shareholder entitled to attend and vote at the above meeting 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) Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment of it), either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (iii) In order to be valid, the completed form of proxy must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, 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 above meeting 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 above meeting (or any adjourned meeting thereof) if they so wish.
- (iv) The register of members of the Company will be closed from Wednesday, December 6, 2023 to Monday, December 11, 2023, both days inclusive, in order to determine the eligibility of shareholders to attend the above meeting, during which period no share transfers will be registered. To be eligible to attend the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, December 5, 2023.
- (v) In respect of resolutions numbered 1 above, details of the director of the Company proposed for re-election are set out in Appendix I to the Circular.
- (vi) Pursuant to Rule 13.39(4) of the Listing Rules, voting for the resolution set out in this notice will be taken by poll at the above meeting.