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**CHINA LITERATURE LIMITED**

**阅文集团**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 772)**

**CONNECTED TRANSACTION  
FURTHER ACQUISITION OF 28.22% EQUITY INTEREST  
IN THE TARGET COMPANY**

**EQUITY INTEREST TRANSFER**

On June 2, 2026, Shanghai Hongwen (a PRC operating entity of the Company, as the Purchaser), entered into the Equity Transfer Agreement with Linzhi Lichuang (as the Vendor), pursuant to which Shanghai Hongwen has conditionally agreed to acquire, and Linzhi Lichuang has conditionally agreed to sell, approximately 28.22% of the equity interest in the Target Company at the Consideration of RMB400.78 million.

As at the date of this announcement, the Company held approximately 31.48% of the equity interest in the Target Company. Upon completion of the Equity Interest Transfer, the Company will hold approximately an aggregate of 59.70% of the equity interest in the Target Company.

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, Tencent is the controlling Shareholder of the Company, and hence a connected person of the Company under Chapter 14A of the Listing Rules. In addition, Linzhi Lichuang, being ultimately controlled by Tencent, is an associate of Tencent. Accordingly, the Equity Interest Transfer constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

On May 30, 2025, the Purchaser entered into an equity transfer agreement with the management vendors and the investor vendors to acquire, in aggregate, approximately 26.67% of the equity interest in the Target Company, as disclosed in the announcement of the Company dated the same date (being the Previous Transaction). The Previous Transaction was completed in July 2025.

As the Previous Transaction and the Equity Interest Transfer involve the acquisition of equity interests in the same company within a 12-month period, the Previous Transaction and the Equity Interest Transfer shall be aggregated for the purpose of calculating the relevant percentage ratios (as defined under the Listing Rules) to determine the classification of the Equity Interest Transfer pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) for the Equity Interest Transfer, when aggregated with the Previous Transaction, are more than 0.1% but less than 5%, the Equity Interest Transfer is subject to the reporting and announcement requirements but is exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**Shareholders and potential investors should note that the completion of the Equity Interest Transfer may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.**

## **EQUITY INTEREST TRANSFER**

Reference is made to the announcement of the Company dated May 30, 2025 (the “**Announcement**”), in relation to, among others, the acquisition of 26.67% equity interest in the Target Company. Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the Announcement.

On June 2, 2026, Shanghai Hongwen (a PRC operating entity of the Company, as the Purchaser), entered into the Equity Transfer Agreement with Linzhi Lichuang (as the Vendor), pursuant to which Shanghai Hongwen has conditionally agreed to acquire, and Linzhi Lichuang has conditionally agreed to sell, approximately 28.22% of the equity interest in the Target Company at the Consideration of RMB400.78 million.

As at the date of this announcement, the Company held approximately 31.48% of the equity interest in the Target Company. Upon completion of the Equity Interest Transfer, the Company will hold approximately an aggregate of 59.70% of the equity interest in the Target Company.

## **EQUITY TRANSFER AGREEMENT**

A summary of the Equity Transfer Agreement is set out below:

### **Date**

June 2, 2026

### **Parties**

1. Shanghai Hongwen as the Purchaser;
2. Linzhi Lichuang as the Vendor; and

3. Wuhan YHKT Entertainment Co., Ltd., as the Target Company.

(collectively as the “**Parties**”, each individually as a “**Party**”)

To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, Linzhi Lichuang and its ultimately beneficial owner are connected persons of the Company as at the date of this announcement.

### **Subject Matter**

Pursuant to the Equity Transfer Agreement, Shanghai Hongwen has conditionally agreed to acquire, and Linzhi Lichuang has conditionally agreed to sell approximately 28.22% of the equity interest of the Target Company (the “**Target Equities**”).

### **Consideration**

The aggregate Consideration under the Equity Transfer Agreement is RMB400.78 million. The Consideration for the Equity Interest Transfer shall be funded by internal sources of the Group.

### **Basis of Consideration**

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, among others: (i) the appraised value of the entire equity interest in the Target Company assessed by an independent valuer (the “**Independent Valuer**”), which was RMB1,310 million as of March 31, 2026 (Valuation Date); (ii) business development and prospects of the Target Company, the synergy between the Target Company and the Group, as well as the reasons for and benefits of the Equity Interest Transfer as stated under the section headed “Reasons for and Benefits of the Equity Interest Transfer” in this announcement; and (iii) the preferential rights attached to the Target Equities, including but not limited to anti-dilution rights, redemption rights, and liquidation preference.

Please refer to Appendix I to this announcement for a summary of the valuation report including, among others, the valuation method, the key assumptions and key inputs.

### **Payment Terms**

The Consideration for the Equity Interest Transfer shall be settled by the Company in cash in the following manner:

- (i) Payment of the first installment: 20% of the Consideration for the Equity Interest Transfer shall be paid by Shanghai Hongwen to Linzhi Lichuang within fifteen (15) Business Days from the date on which all of the Conditions Precedent to the Completion as set out in the Equity Transfer Agreement are satisfied or waived by Shanghai Hongwen in writing, or at such other time as the Parties may mutually agree in writing; and

- (ii) Payment of the second installment: 80% of the Consideration for the Equity Interest Transfer shall be paid by Shanghai Hongwen to Linzhi Lichuang within ten (10) Business Days from the date on which Shanghai Hongwen receives all of the following required documents, including a notice from the Target Company and the Vendor, confirming satisfaction of all the Conditions Precedent to the Completion set out in the Equity Transfer Agreement (except for items (vii) and (viii) under the section headed “**Conditions Precedent to the Completion**”), and all of the business registration documents relating to the Equity Interest Transfer, or at such other time as the Parties may mutually agree in writing.

### **Conditions Precedent to the Completion**

The completion of the Equity Interest Transfer is conditional upon each of the following conditions having been satisfied or waived at or prior to the Closing, and the Vendor shall use reasonable endeavours to procure their fulfillment:

- (i) the transaction documents for the Equity Interest Transfer being executed by the Target Company and its shareholders and delivered to the Purchaser;
- (ii) the respective representations, warranties and undertakings made by the Target Company and the Vendor in the Equity Transfer Agreement are true, accurate and complete in all respects, and not misleading from the date of the Equity Transfer Agreement to the Closing Date;
- (iii) the Target Company having performed all of its obligations, undertakings and covenants required to be fulfilled under the transaction documents prior to the Closing;
- (iv) there are no pending or threatened claims initiated by or before any government department against any Party that would be expected to restrain, prohibit, or materially and adversely affect the Equity Interest Transfer or any of its conditions, and, in the reasonable judgment of the Purchaser, the existence of such claims would render the completion of the Equity Interest Transfer unlawful or impracticable;
- (v) the Target Company having obtained approval from its shareholders for the execution of the transaction documents and the consummation of the Equity Interest Transfer;
- (vi) the Target Company and its shareholders having obtained all third-party approvals, consents or waivers required for the execution and performance of the transaction documents and the consummation of the Equity Interest Transfer;
- (vii) the results of the due diligence investigation on the legal, business, and financial aspects of the Target Company are satisfactory to the Purchaser, and any material issue identified during the due diligence investigation has been resolved or addressed to the Purchaser’s satisfaction;

- (viii) the Purchaser's internal decision-making authority having approved the Equity Interest Transfer, the execution and performance of the transaction documents and the matters contemplated therein;
- (ix) no event constituting a material adverse effect having occurred prior to the Closing Date, and there is no evidence indicating the likelihood of such an event;
- (x) no litigation or other dispute proceedings undisclosed to the Purchaser in writing, exist that would adversely impact the legality of the Equity Interest Transfer, or the ability of the Purchaser and the Vendor to consummate the Equity Interest Transfer, nor would such proceedings have a material adverse effect on the operations or condition of the Target Company and its subsidiaries as of the Closing Date;
- (xi) all factual information provided by the Target Company and contained in agreements, documents, and other written materials in relation to the Target Company and the Equity Interest Transfer are true without any omission or misrepresentation, and no material facts are withheld from the Purchaser and its professional advisors;
- (xii) the Vendor having delivered to the Purchaser written resignation letter from the director of the Target Company nominated or appointed by the Vendor, and such resignation letter is in form and substance satisfactory to the Purchaser; and
- (xiii) the Vendor having delivered to the Purchaser a written payment notice in the form set forth in an exhibit of the Equity Transfer Agreement specifying the details of the designated bank account and the payment amount to be remitted by the Purchaser.

If the Conditions Precedent to Completion have not been fully satisfied or waived by the Purchaser on or before the date falling 120 days after the date of execution of the Equity Transfer Agreement, and such failure is not as a result of a breach of the Equity Transfer Agreement by any Party, any Party shall have the right to terminate the Equity Transfer Agreement by giving written notice to the other Parties.

## **Closing**

The Closing shall take place upon full payment of the second installment of the Consideration (the "**Closing**").

On the same date, Shanghai Hongwen entered into a supplemental agreement to shareholders' agreement, pursuant to which all the rights and obligations of the Vendor in respect of the management and operations of the Target Company shall be assumed by Shanghai Hongwen upon the completion of the Equity Interest Transfer.

## **REASONS FOR AND BENEFITS OF THE EQUITY INTEREST TRANSFER**

The strategic alignment between the Target Company and the Group creates vertically complementary capabilities across the IP value chain. As an industry bellwether with a vertically integrated IP ecosystem, the Group holds a leading position through its comprehensive IP operations that cover various formats, such as premier online literature, comics, animation, TV series, web series, films, online games, short dramas, AI-animated dramas as well as IP-related merchandise. The Target Company complements this ecosystem with cutting-edge long-form animation production expertise, combined with a future-proof, self-developed new animation workflow platform that integrates the strengths of traditional production lines and a comprehensive development process and dedicated team for developing large-scale narrative-driven games. This synergistic alignment will strengthen the Group's full-spectrum IP operational capabilities from incubation to visualization and commercialization. By fostering strategic partnerships, the collaboration will enhance China Literature's competitive advantages in building a leading IP industry value chain.

Furthermore, by leveraging its resource advantages, the Group will jointly explore deeper collaboration opportunities with the Target Company's premium IPs, striving to build "Ling Long (靈籠)" and other self-developed IPs into globally renowned science fiction IPs, in a bid to maximize their IP value.

This strategic move aligns with the Group's commitment to strengthening its leadership in IP ecosystem and driving sustainable growth through cross-industry innovation.

## **OPINION FROM THE BOARD**

The Directors (including the independent non-executive Directors) are of the view that terms of the Equity Transfer Agreement were determined after arm's length negotiation, and the transactions contemplated thereunder are conducted in the ordinary and usual business of the Company and on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Pu Hai Tao, Mr. Hou Xiaonan and Mr. Xie Qinghua (all being Directors), have abstained from voting on the relevant Board resolutions approving the Equity Transfer 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 the Equity Transfer Agreement.

## INFORMATION OF THE PARTIES

### *The Group*

The Group is principally engaged in online literature business and intellectual property operation business. It incubates original IPs from its online literature platform, which are subsequently adapted into a variety of entertainment formats, including comics, animation, TV series, web series, films, online games, short dramas, AI-animated dramas and IP-related merchandise. Shanghai Hongwen is principally engaged in Internet publication in the PRC.

### *Linzhi Lichuang*

Linzhi Lichuang is a limited liability company incorporated in the PRC, principally engaged in investment holding, and is ultimately controlled by Tencent.

### *The Target Company*

The Target Company is a limited liability company incorporated in the PRC, principally engaged in the development and operation of animation and gaming content. It owns the core intellectual property “Ling Long (靈籠)”. “Ling Long (靈籠)” franchise originated as an animated series, with its inaugural season premiering in 2019. This production has achieved substantial industry recognition, accumulating over 10 billion cumulative views across all streaming platforms and establishing a profound cultural influence. The Target Company is also developing another original fantasy-themed IP, which will be simultaneously released as a high-quality animation and narrative-driven game. As at the date of this announcement, the Target Company has a registered capital of RMB3,439,381, and is held by Mr. Ruan Rui, Mr. Chen Wei, Mr. Dong Xiangbo, Shanghai Huayihua, Chengmai Yishan, Shanghai Hongwen, Hangzhou Cheers, Linzhi Lichuang and Ningbo Cheers as to approximately 10.08%, 2.27%, 1.81%, 10.24%, 1.89%, 31.48%, 6.46%, 28.22%, and 7.56%, respectively.

Shanghai Huayihua Management Consulting Partnership Enterprise (Limited Partnership)\* (上海畫懿畫管理諮詢合夥企業(有限合夥)) (the “**Shanghai Huayihua**”) is an employee shareholding platform of the Target Company in the PRC, and its general partner is Chengmai Yihai Jiaxin Technology Co., Ltd\* (澄邁藝海佳信科技有限公司) which is ultimately controlled by Mr. Ruan Rui.

Chengmai Yishan Hengyi Management Consulting Partnership (Limited Partnership)\* (澄邁藝山恆誼管理諮詢合夥企業(有限合夥)) (the “**Chengmai Yishan**”) is an employee shareholding platform of a subsidiary of the Target Company and its general partner is Chengmai Yihai Jiaxin Technology Co., Ltd\* (澄邁藝海佳信科技有限公司) which is ultimately controlled by Mr. Ruan Rui.

Hangzhou Cheers is a limited partnership incorporated in the PRC and is primarily engaged in equity investment. The general partner of Hangzhou Cheers is Hangzhou Cheers Enterprise Management Consulting Partnership (Limited Partnership)\* (杭州乾杯企業管理諮詢合夥企業(有限合夥)) with 0.1% interest in Hangzhou Cheers, which is ultimately owned by ZHU Yichen. The remaining limited partnership interest of Hangzhou Cheers is owned as to (i) approximately 45.2% by Shanghai Huijie Culture Communication Co., Ltd.\* (上海繪界文化傳播有限公司), as a limited partner, which is ultimately controlled by Bilibili through contractual arrangements; (ii) approximately 24.0% by Shanghai Chaojing Culture Communication Co., Ltd.\* (上海超競文化傳播有限公司), as a limited partner, which is ultimately controlled by ZHU Yihang; (iii) approximately 10.0% by Hangzhou Yuhang Industrial Fund Co., Ltd.\* (杭州余杭產業基金有限公司) and 3.3% by Zhejiang Dream Town Investment Development Co., Ltd.\* (浙江夢想小鎮投資發展有限公司), as limited partners, both are ultimately controlled by Yuhang District Finance Bureau of Hangzhou (State-owned Assets Supervision and Administration Office of Yuhang District People's Government of Hangzhou); and (iv) approximately 17.3% by other limited partners, each of whom holds less than 10% of the interest therein. The ultimate beneficial owner of Hangzhou Cheers is ZHU Yichen.

Ningbo Cheers is a limited partnership incorporated in the PRC and is primarily engaged in equity investment. The general partner of Ningbo Cheers is Ningbo Ruicheng Venture Capital Management Co., Ltd.\* (寧波睿成創業投資管理有限公司) with 0.2% interest in Ningbo Cheers, which is ultimately owned by ZHU Yichen. The remaining limited partnership interest of Ningbo Cheers is owned as to (i) approximately 49.0% by Shanghai Hode Information Technology Co., Ltd.\* (上海幻電信息科技有限公司), as a limited partner, which is ultimately controlled by Bilibili through contractual arrangements; (ii) approximately 39.9% by Shenzhen Qianhai Huizhi Tongbao Investment Fund Partnership (Limited Partnership)\* (深圳前海慧智通寶投資基金合夥企業(有限合夥)), which is ultimately controlled by HE Lingbo; and (iii) approximately 10.9% by Hangzhou Xiehe Investment Management Partnership (Limited Partnership)\* (杭州攜和投資管理合夥企業(有限合夥)), which is ultimately controlled by XU Chunxiao. The ultimate beneficial owner of Ningbo Cheers is ZHU Yichen.

Set out below is the unaudited consolidated financial information of the Target Company for the two financial years ended 31 December 2024 and 31 December 2025 prepared in accordance with the Chinese Accounting Standards for Business Enterprises.

	<b>For the year ended 31 December 2024 (Unaudited) RMB'000</b>	For the year ended 31 December 2025 (Unaudited) RMB'000
<b>Net loss before tax</b>	<b>(223,805)</b>	<b>(245,566)</b>
<b>Net loss after tax</b>	<b>(223,792)</b>	<b>(245,566)</b>

Based on the unaudited consolidated financial information of Target Company prepared in accordance with the Chinese Accounting Standards for Business Enterprises, as at 31 December 2024 and 2025, the total assets of the Target Company were approximately RMB438.00 million and RMB205.57 million, respectively, and the net assets were approximately RMB194.54 million and RMB-51.03 million, respectively.

Linzhi Lichuang acquired an approximately 28.22% equity interest of the Target Company at an original acquisition cost of approximately RMB488.99 million.

As at the date of this announcement, the Company held approximately 31.48% of the equity interest in the Target Company. Upon completion of the Equity Interest Transfer, the Company's interest in the Target Company will be approximately 59.70%, and Linzhi Lichuang will no longer hold any interest in the Target Company. Notwithstanding the aforesaid, upon completion of the Equity Interest Transfer, the Company does not expect to obtain control over the Target Company primarily for the following reasons: (i) the Management Shareholders and the Investor Shareholders will continue to possess veto rights in respect of certain key matters of the Target Company, including key operational, investment and financing decisions; and (ii) half of the board of directors of the Target Company will be controlled by the Management Shareholders. In particular, the board of directors of the Target Company shall comprise ten directors, of whom four will be appointed by the Company (including one director to be appointed by the Company following completion of the Equity Interest Transfer in replacement of the director previously appointed by Linzhi Lichuang), while the remaining five and one directors shall be appointed by the Management Shareholders and the Investor Shareholders, respectively. In light of the above, in accordance with IFRS (International Financial Reporting Standards), the completion of the Equity Interest Transfer is not expected to result in the Target Company becoming a subsidiary of the Company. Accordingly, the financial results of the Target Company will not be consolidated into the consolidated financial statements of the Group.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Tencent is the controlling Shareholder of the Company, and hence a connected person of the Company under Chapter 14A of the Listing Rules. In addition, Linzhi Lichuang, being ultimately controlled by Tencent, is an associate of Tencent. Accordingly, the Equity Interest Transfer constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

On May 30, 2025, the Purchaser entered into an equity transfer agreement with the management vendors and the investor vendors to acquire, in aggregate, approximately 26.67% of the equity interest in the Target Company, as disclosed in the announcement of the Company dated the same date (being the Previous Transaction). The Previous Transaction was completed in July 2025.

As the Previous Transaction and the Equity Interest Transfer involve the acquisition of equity interests in the same company within a 12-month period, the Previous Transaction and the Equity Interest Transfer shall be aggregated for the purpose of calculating the relevant percentage ratios (as defined under the Listing Rules) to determine the classification of the Equity Interest Transfer pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratios (as defined under the Listing Rules) for the Equity Interest Transfer, when aggregated with the Previous Transaction, are more than 0.1% but less than 5%, the Equity Interest Transfer is subject to the reporting and announcement requirements but is exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**Shareholders and potential investors should note that the completion of the Equity Interest Transfer may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.**

## **DEFINITIONS**

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

“Board”	the board of Directors;
“Business Day(s)”	days other than Saturday, Sunday or public holiday in the PRC;
“Company” or “China Literature”	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;
“Closing Date”	the date on which Closing shall occur in accordance with the terms of the Equity Transfer Agreement;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the consideration payable by the Purchaser to the Vendor pursuant to the Equity Transfer Agreement;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Equity Transfer Agreement”	the equity transfer agreement entered into among the Purchaser, the Vendor, and the Target Company dated June 2, 2026;
“Equity Interest Transfer”	the acquisition of an aggregate of 28.22% of the equity interest in the Target Company by the Purchaser from the Vendor pursuant to the Equity Transfer Agreement;
“Group”	the Company, its subsidiaries and its consolidated affiliated entities;
“Investor Shareholders”	collectively, Hangzhou Cheers and Ningbo Cheers, being the investor vendors in the Previous Transaction;

“Independent Third Party”	any entity(ies) or person(s) who, to the best of the knowledge, information and belief of the Directors, is/are not a connected person(s) of the Company (as defined under the Hong Kong Listing Rules);
“Hangzhou Cheers”	Hangzhou Cheers Venture Capital Partnership (Limited Partnership)* (杭州乾杯創業投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC on September 24, 2021;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Linzhi Lichuang” or “Vendor”	Linzhi Lichuang Information Technology Co., Ltd.* (林芝利創信息技術有限公司), a limited liability company established in the PRC on October 26, 2015;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time;
“Management Shareholders”	collectively, Mr. Ruan Rui, Mr. Dong Xiangbo and Mr. Chen Wei;
“Ningbo Cheers”	Ningbo Cheers Equity Investment Partnership (Limited Partnership)* (寧波乾杯股權投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC on May 17, 2017;
“PRC” or “China”	the People’s Republic of China;
“Previous Transaction”	the acquisition of the 26.67% equity interest in the Target Company by Shanghai Hongwen pursuant to an equity transfer agreement in May 2025. For the avoidance of doubt, the Previous Transaction and the Equity Interest Transfer are not inter-conditional with each other;
“Purchaser” or “Shanghai Hongwen”	Shanghai Hongwen Networking Technology Co., Ltd.* (上海宏文網絡科技有限公司), a company established in the PRC on October 22, 2008, and one of the PRC operating entities of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each;

“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Target Company”	Wuhan YHKT Entertainment Co., Ltd.* (武漢藝畫開天文化傳播有限公司), a limited liability company established in the PRC on May 12, 2015; and
“Tencent”	Tencent Holdings Limited, the controlling Shareholder, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange with stock code 700.

*Note:*

1. For ease of reference, the names of the PRC established companies or entities have been included in this announcement in both Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.
2. The shareholding percentages set out in this announcement are subject to rounding and may not add up to the total.

By order of the Board  
**CHINA LITERATURE LIMITED**  
**Mr. Pu Hai Tao**

*Chairman of the Board and Non-executive Director*

Hong Kong, June 2, 2026

*As of the date of this announcement, the Board comprises Mr. Hou Xiaonan and Mr. Huang Yan as Executive Directors; Mr. Pu Hai Tao, Mr. Cao Huayi, and Mr. Xie Qinghua as Non-executive Directors; Ms. Leung Sau Ting Miranda, Mr. Kong Xiangjun and Mr. Mak Tze Leung as Independent Non-executive Directors.*

## **APPENDIX I SUMMARY OF THE VALUATION REPORT**

### **Valuation Methods**

According to the valuation report, the Independent Valuer has analyzed the applicability of the three valuation methods, which are the market approach, the asset-based approach and the income approach.

The Independent Valuer understands that the Target Company has predictable going concern ability and profitability in the future period, and the management of the Target Company can provide financial forecasts, and has the conditions to adopt the income approach for valuation. Moreover, the Target Company is in an industry characterized by asset-light and profit-driven business value, and the Independent Valuer believes that adopting the income approach is a reasonable approach due to the close relationship between expected income and business value.

Considering that the Target Company is still in the loss-making stage and its game products have not yet been launched, and there are certain differences in scale and maturity with the listed comparable companies, the Independent Valuer has not adopted the market approach for valuation.

Considering that the net assets of the Target Company mainly consist of money funds, advance from customers and inventories and the value of the future development of the Target Company cannot be reasonably reflected under the asset-based approach, the Independent Valuer has not adopted the asset-based approach for valuation.

### **Valuation Assumptions**

#### ***(I) Basic Assumptions***

1. Open market assumption: The open market assumption is a hypothetical description or qualification of the conditions of the market that the assets are intended to enter, and what kind of influence the assets are subject to under such market conditions. Open market refers to fully developed and perfect market conditions, a competitive market with voluntary buyer and sellers, in which the status of buyers and sellers is equal and both parties have the opportunity and time to obtain sufficient market information. The trading activities of buyers and sellers are carried out under voluntary, rational and not compulsory or unrestricted conditions;
2. Going concern assumption, i.e., it is assumed that the Target Company, based on its existing assets and resources, will not cease its business due to various reasons during the limited operation period, but will operate legally and continuously;

3. Transaction assumption, i.e., it is assumed that all assets to be valued are already in the process of being traded, and the Independent Valuer simulates the market for the valuation based on the trading conditions of the assets to be valued and so on. The transaction assumption is a fundamental prerequisite assumption upon which the valuation can be conducted;
4. The market value of the Target Company is based on prevailing market, economic, and other conditions at the Valuation Date, corresponding with a period of significant volatility in global financial markets and widespread macro-economic uncertainties escalated by the recent global tariff tensions. In particular, various nations announced updates in tariff and trading policies in certain sectors, which has led to a high degree of uncertainty in the macro-economic landscape and international trade dynamics. To the extent possible, the Independent Valuer has considered these conditions in the valuation results. However, the factors driving these conditions may change over relatively short periods of time hence the impact associated with these conditions is hardly quantified precisely. The impact of any subsequent changes in these conditions on the global economy and financial markets generally, and/or the subject being valued specifically, could impact upon value in the future, either positively or negatively.

## ***(II) General Assumptions***

1. There have been no significant changes in the accounting policies and accounting methods of the Target Company after the Valuation Date;
2. The business plan of the Target Company and all milestones will be achieved as scheduled;
3. The transaction assumption, i.e., it is assumed that all assets to be valued are already in the process of being traded, and the Independent Valuer simulates the market for valuation based on the trading conditions of the assets to be valued and so on. The transaction assumption is a fundamental prerequisite assumption upon which the valuation can be conducted;
4. Except for the laws and regulations that have been enacted by the government and those that have been enacted but not yet implemented, which affect the operations of the Target Company as of the Valuation Date, it is assumed that there will be no significant changes in the laws and regulations related to the operations of the Target Company during the forecast period;

5. As of the Valuation Date, the Target Company has no significant contingent liabilities, abnormal contractual obligations, or significant commitments; as of the Valuation Date, the Target Company has no significant pending or potential litigation; as of the Valuation Date, the Target Company has not violated any laws or regulations;
6. It is assumed that changes in factors such as exchange rates, interest rates, tax burdens and inflation related to the Target Company's operations after the Valuation Date do not have a significant impact on its operating conditions during the forecast period;
7. It is assumed that the management of the Target Company are responsible and that the management has the capability to assume its responsibilities, during the forecast period, the key management and technical personnel of the Target Company will not undergo any significant changes that would affect its operations based on the status as of Valuation Date, the management will develop steadily, and there will be no significant changes in the management system that will impact its operation;
8. There are no other significant adverse effects from other irresistible and unpredictable factors.

### ***(III) Special Assumptions***

1. In this valuation, the impact on its value of the external equity investments made by the appraised entity following the Valuation Date is not considered;
2. In this valuation, it is assumed that the appraised entity will have steady cash inflows and cash outflows in the future income period.

### **Key Input Parameters and Calculation Process for Valuation**

#### ***(I) Selection of Valuation Model: Income Approach***

Income approach refers to the general term of various valuation approaches to determine the value of the Subject by capitalization or discount of the expected incomes.

The formula of discounted cash flow model is:

$$E = (B - D + \sum X_i) \times (1 - \text{DL0M}) + C \quad (1)$$

Where,

E: equity value of the Target

B: business enterprise value of the Target

D: value of interest-bearing debt

$\sum X_i$ : sum of non-operating assets and liabilities

DLOM: Discount for Lack of Marketability

C: excess assets and liabilities

$$B = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + TV_{PV} = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{(r-g)(1+r)^n} \quad (2)$$

Where:

$R_i$ : expected earning proceeds of year i (free cash flow to firm)

$R_i$  = net income + depreciation and amortisation + after tax interest expense – change in working capital – capital expenditure

Or

$R_i$  = EBIT x (1-t) + depreciation and amortisation+ after tax interest expense – change in working capital – capital expenditure

r: discount rate (WACC)

g: long-term growth rate

n: forecast period

$$r = WACC = K_e \frac{E}{D+E} + K_d \frac{D}{D+E} (1-T) \quad (3)$$

Where:

$K_e$ : cost of equity, based on Capital Asset Pricing Model

E: market value of equity

$K_d$ : cost of debt

D: market value of debt

T: corporate income tax

$$K_e = r_f + \beta \times ERP + \alpha \quad (4)$$

Where:

$R_f$ : current return from risk-free investments

ERP: equity risk premium, being the average risk premium above the risk free rate that a “market” portfolio of assets is earning

$\beta$ : the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets

$\alpha$ : Additional risk factor (alpha)

In this valuation method, the main parameters used are as follows:

Financial forecast parameters	See detailed in Chapter (III) Determination of Future Income
Other valuation parameters	Assumption parameters
Discount rate	The discount rate is 12.6%, as detailed in Chapter (IV) “Determination of the Discount Rate”
Long-term growth rate	Based on the data from www.EIU.com, the Independent Valuer adopted a perpetual growth rate of 1.5%
Discount for Lack of Marketability (DLOM)	Based on the research of market liquidity, the Independent Valuer adopted a marketability discount of 28%
Excess assets	Excess assets mainly consist of demand deposits in banks, large denomination certificates of deposit, Alipay and other accounts, wealth management products, as well as a portion of other receivables (amounts lent to related parties, interest paid on behalf of others and lendings), etc.
Interest-bearing debt	As of the Valuation Date, the Target Company’s interest-bearing debt mainly consists of short-term borrowings
Non-operating assets and liabilities	As of the Valuation Date, the Target Company’s non-operating assets mainly consist of long-term equity investments; the Target Company’s non-operating liabilities mainly consist of financial liabilities

## ***(II) Determination of Projection Period***

Considering the operating cycle and the degree of future income realization of the Target Company, this valuation assumes that the forecast period for Target Company is from April to December 2026 to December 2030, after which it enters into a perpetual operation assumption.

## ***(III) Determination of Future Income***

### *1. Forecast of revenue*

- 1) Sales revenue is classified by nature into: broadcasting revenue, IP licensing revenue, sales revenue from peripheral products, advertising revenue, and game distribution revenue, etc. Among them, broadcasting revenue mainly consists of revenues related to the broadcasting of animation projects; IP licensing revenue primarily includes revenues from game adaptation/image licensing, film and television adaptation, and business development rights, etc.; sales revenue from peripheral products primarily includes goods sales revenue; advertising revenue mainly comes from embedded advertising in animation projects; and game distribution revenue primarily consists of game revenue sharing income.
- 2) Broadcasting revenue, IP licensing revenue, sales revenue from peripheral products, advertising revenue, etc., are primarily forecasted based on the production and launch cycles of animation projects. Game distribution revenue is primarily forecasted based on user scale, user payment rate, per capita consumption amount and revenue sharing ratio, etc.

### *2. Forecast of operating costs*

- 1) Operating costs mainly consist of: animation production costs, procurement costs for peripheral products, etc.
- 2) The management primarily forecasts based on the scale and volume of animation projects, the sales of peripheral products, etc.

### *3. Forecast of operating expenses*

- 1) Operating expenses mainly include selling expenses, administrative expenses, and research and development expenses.

- 2) The breakdown of operating expenses mainly includes labor costs, rental expenses, promotion and advertising expenses and other expenses. The management primarily forecasts based on expectations regarding the Target Company's future operational scale, including the number of employees, average labor wages, the scale of operational office space, and promotion and advertising planning, etc.

4. *Forecast of corporate income tax*

- 1) In this valuation, the income taxes for subsequent years are predicted based on the total profit that may be realized by the appraised entity at the effective tax rate and for forecast period.
- 2) For the perpetual period, a corporate income tax rate of 25% will be adopted.

5. *Forecast of working capital*

The increase in working capital refers to the increase in working capital required by the entity for continuing operation without changing its current principle business conditions, such as cash required for sustaining normal production and operations, capital funds required for acquisition of inventories including raw materials and products, funds required for outstanding operational payments due from customers (accounts receivable), and payables, etc.

The increase in working capital in this valuation report is:

Increase in working capital = working capital required in the current period – working capital required in the previous period

6. *Forecast of capital expenditures*

The capital expenditures during the forecast period mainly include capital expenditures generated from fixed assets (office furniture and appliances, electronic devices, etc.), and the percentage of capital expenditure to revenue for the forecast period from 2027 to 2030 is approximately 1.0%, which is close to the average level of comparable companies in the same industry.

7. *Forecast of depreciation and amortization*

According to the information from the management, depreciation and amortization mainly include depreciation and amortization expenses for office equipment, intangible assets, low-value consumables, fixed assets, long-term deferred expense, and office furniture and appliances, etc.

#### ***(IV) Determination of the Discount Rate***

##### *1) Estimation of the discount rate*

According to the discounted cash flow method (commonly used to calculate the “**overall value of a business**”), it is necessary to adopt an appropriate discount rate to discount free cash flow to firm to the Valuation Date, thereby obtaining the overall value of the business.

This value is the overall value of the enterprise jointly owned by debt investors and equity investors.

The discount rate widely adopted for this purpose is the WACC, which is the consolidated cost of capital that takes into account the costs of both debt and equity. The definition of the weighted average cost of capital is as follows:

$$\text{WACC} = K_e \times (E/(D+E)) + K_d \times (1-T) \times (D/(D+E))$$

Where:

$K_e$  = Cost of equity

E = market value of equity

$K_d$  = Cost of debt

D = market value of debt

T = corporate income tax rate

In the detailed valuation analysis, the financial forecasts use nominal cash flows; therefore, the discount rates that the Independent Valuer applied are also based on the nominal return rate. The units of the above formula are detailed as follows.

## 2) *Calculation of the cost of equity capital*

The cost of equity capital is obtained using the Capital Asset Pricing Model, in which the cost of equity capital equals the risk-free rate plus market risk and company-specific risk.

$$K_e = R_f + \beta \times ERP + \alpha$$

Where:

$R_f$  = current return from risk-free investments

ERP = Equity Risk Premium

The average risk premium above the risk free rate that a “market” portfolio of assets is earning

$\beta$  = systemic risk parameter

The measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets

$\alpha$  = additional risk factor

## 3) *Current return from risk-free investments*

The nominal risk-free rate of return is based on Chinese government bonds, adopting the interest rate of 2.3% as of the Valuation Date, sourced from Capital IQ.

## 4) *Equity risk premium*

Refer to the equity risk premium 6.1% based on historical data from the Chinese capital market.

## 5) *Beta*

To forecast the cost of capital, valuer first selected several comparable companies to predict the Beta coefficient, which refers to the ratio of the risk of the Target Company and related industry companies to the overall market risk.

The Beta coefficient observed by the market reflects the actual financing structure. When conducting a discounted cash flow analysis on the Target Company, it is necessary to unlever the market-observed Beta coefficient for the effects of the financing structure and then re-lever the asset Beta coefficient based on the Target Company’s debt-to-equity ratio. The Valuer adopted the median Beta of comparable companies of the Target Company, considering the leveraged Beta coefficient to be 0.52.

Due to the need for discounted cash flows, the WACC was calculated based on the capital structure of comparable companies, and the Valuer believes this is the most appropriate capital structure.

6) *Alpha*

The Alpha coefficient includes the size premium and company specific premium.

In determining the cost of equity, the Valuer considered a size premium of 2.6% based on Kroll (formerly known as Duff & Phelps) Cost of Capital Navigator.

Considering the uncertainty of financial forecasts, the Valuer has considered a company specific premium of 4.5%.

7) *Cost of debt*

Based on the long-term borrowing rate in China, the 5 year + loan prime rate (LPR) published by the People's Bank of China.

8) *Tax rate and capital structure*

The tax rate is based on the effective corporate income tax rate in China as of the Valuation Date; the capital structure is based on the typical capital structure levels in the Target Company's industry.

9) *Determination of the discount rate*

Based on the above indicators, the WACC (i.e., discount rate) is derived as 12.6% using the calculation formula of the weighted average cost of capital.

**(V) Valuation Conclusion**

	2026.4-12e	2027e	2028e	2029e	2030e	Perpetual period
<b>Free cash flow to firm (RMB'000)</b>	<b>(140,185)</b>	<b>158,895</b>	<b>149,165</b>	<b>394,729</b>	<b>407,385</b>	<b>256,552</b>
Terminal value (RMB'000)						2,313,694
Discount period	0.38	1.25	2.25	3.25	4.25	4.25
Discount rate	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
<b>Present value of free cash flow to firm (RMB'000)</b>	<b>(134,061)</b>	<b>136,952</b>	<b>114,191</b>	<b>268,391</b>	<b>246,026</b>	<b>1,397,273</b>

### **Calculation of enterprise value**

Terminal value (RMB'000) = Free cash flow to firm in perpetual period / (Discount rate – Long-term growth rate) = 256,552 / (12.6%–1.5%) = 2,313,694

Enterprise value (rounded, RMB'000) = Present value of free cash flow to firm in forecast period + Present value of terminal value = 631,499 + 1,397,273 = 2,030,000

### **Calculation of equity value**

Indicated equity value on a marketable basis (RMB'000) = enterprise value – net non-operating liabilities – Interest-bearing debt = 2,030,000 – 130,467 – 30,000 = 1,869,533

Equity value (rounded, RMB'000) = Indicated equity value on a marketable basis – DLOM + excess assets – value of convertible bond = 1,869,533 – 523,469 + 133,727 – 172,000 = 1,310,000

Based on the above analysis, the value conclusion was derived by income approach. As at the Valuation Date, the total equity value of the Target Company was RMB1,310 million.

*Note:*

The figures set out in Appendix I to this announcement are subject to rounding and may differ slightly from the actual calculated amounts due to such rounding.