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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.

If you have sold or transferred all your shares in China Literature Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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阅文集团
CHINA LITERATURE LIMITED
阅文集团
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

**PROPOSED REVISION OF ANNUAL CAPS UNDER THE
2019 IP COOPERATION FRAMEWORK AGREEMENT
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 on Friday, November 22, 2019 at 9:30 a.m. is set out on pages 39 to 40 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, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the 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.

October 23, 2019

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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 share 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”	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, Hong Kong at 9:30 a.m. on Friday, November 22, 2019, or any adjournment thereof and notice of which is set out on pages 39 to 40 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 proposed revision of the annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021

DEFINITIONS

“Independent Financial Adviser” or “Somerley”	means Somerley 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 proposed revision of the annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021
“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 Cooperation CCTs”	the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to audio and comics works) and/or the derivative rights of the intellectual property of these works under the 2019 IP Cooperation Framework Agreement
“Latest Practicable Date”	October 15, 2019, 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 Island 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

“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 directly 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
“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
“2019 CCT Renewal Announcements”	the announcements of the Company dated March 18, 2019 and May 17, 2019 in relation to, among others, the 2019 IP Cooperation Framework Agreement
“2019 CCT Renewal Circular”	the circular of the Company dated April 9, 2019 in relation to, among others, the 2019 IP Cooperation Framework Agreement

DEFINITIONS

“2019 IP Cooperation Framework Agreement”	a framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on March 18, 2019 relating to the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to audio and comics works) and/or the derivative rights of the intellectual property of these works
“%”	per cent

阅文集团
CHINA LITERATURE LIMITED
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(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

Executive Directors:

Mr. Wu Wenhui
Mr. Liang Xiaodong

Non-Executive Directors:

Mr. James Gordon Mitchell
Mr. Lin Haifeng
Mr. Cao Huayi
Ms. Chen Fei

Independent Non-Executive Directors:

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

Registered office:

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People's Republic of China

*Principal place of business
in Hong Kong:*

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

October 23, 2019

To the Shareholders

Dear Sir or Madam

**PROPOSED REVISION OF ANNUAL CAPS UNDER THE
2019 IP COOPERATION FRAMEWORK AGREEMENT
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 following proposal to be put forward at the Extraordinary General Meeting: the proposed revision of annual caps under the 2019 IP Cooperation Framework.

LETTER FROM THE BOARD

PROPOSED REVISION OF ANNUAL CAPS UNDER THE 2019 IP COOPERATION FRAMEWORK AGREEMENT

Reference is made to the 2019 CCT Renewal Announcements and the 2019 CCT Renewal Circular in relation to, among others, the 2019 IP Cooperation Framework Agreement in relation to the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to audio works and comics) and/or the derivative rights of the intellectual property of these works. The annual caps under the 2019 IP Cooperation Framework Agreement prescribe that: (i) the revenue derived from the IP Cooperation CCTs (excluding audio and comics works not operated by the Group) during one financial year shall not exceed 6% of the audited revenue of the Company in respect of the immediate preceding financial year; (ii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the audio works which are not operated by the Group shall not exceed RMB9.0 million, RMB11.0 million and RMB13.5 million respectively for the three years ending December 31, 2021; (iii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the comics works which are not operated by the Group shall not exceed RMB1.0 million, RMB2.0 million and RMB3.0 million respectively for the three years ending December 31, 2021.

Reference is also made to the announcement of the Company dated September 27, 2019 in relation to, among others, the proposed revision of the annual caps under the 2019 IP Cooperation Framework Agreement. On September 27, 2019, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to revise the annual caps under the 2019 IP Cooperation Framework Agreement such that the proposed revised annual caps in monetary amount under the 2019 IP Cooperation Framework Agreement will be set for the three years ending December 31, 2021. Save for the proposed revision of annual caps, the rest of the other material terms of the 2019 IP Cooperation Agreement will remain unchanged.

Principal terms of the 2019 IP Cooperation Framework Agreement are set out as follows:

Date	:	September 27, 2019
Parties	:	(1) Shanghai Yueting (on behalf of the Group); and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Terms	:	From the date of the Shareholders' approval to December 31, 2021

LETTER FROM THE BOARD

Subject matter : The Group agreed the cooperation in the content adaptation of the Company's literary works, distribution of the works (including but not limited to audio works and comics and excluding films, television series and animation) and/or the derivative rights of intellectual property of these works.

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 of 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.

The 2019 IP Cooperation Framework Agreement only covers IP Cooperation CCTs entered into between the Group and any member of the Retained Tencent Group and does not cover any transaction between the Group and any associate of Tencent (whether with or without the involvement of any member of the Retained Tencent Group). The Company will comply with the Listing Rules in respect of the entering into of the transactions for adaptation of the intellectual property rights of the Group of its literary works with associates of Tencent separately and will not aggregate such transactions with the transactions contemplated under the 2019 IP Cooperation Framework Agreement.

For the avoidance of doubt, in the event that the Group cooperates with the Retained Tencent Group in the licensing of the internet information broadcast rights and broadcast rights of audiovisual works including films, television series and animation, such transactions will be conducted and carried out under the distribution framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018. For further details of the distribution framework agreement, please refer to the announcement of the Company dated August 13, 2018 and the circular of the Company dated September 28, 2018.

LETTER FROM THE BOARD

- Forms of cooperation** : Forms of cooperation under the 2019 IP Cooperation Framework Agreement include but are not limited to the following:
- Adaptation by the Retained Tencent Group of the Group's literary works into films, television series, games, audio works, comics or animations; and
 - Licensing by the Group of the information network transmission rights of works (including but not limited to audio works and comics and excluding films, television series and animation) and/or the derivative rights of the intellectual property of these works 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:
- Fixed payment from the licensee to the licensor;
 - Revenue/profit sharing between the parties; and
 - A mix of the foregoing two commercial arrangements.
- Payment and settlement terms** : Payment and settlement terms under the 2019 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2019 IP Cooperation Framework Agreement.

Pricing Policies

- (1) *in respect of the IP Cooperation CCTs (including in particular 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;
 - (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;

LETTER FROM THE BOARD

(2) *in respect of the licensing of 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); and

(3) *in respect of audio and comics works not operated by the Group,*

- (v) the prevailing market price and average revenue/profit sharing percentage in the industry, which ranges from 60% (the Group) : 40% (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 and comics works, and the quantity and quality of the Retained Tencent Group's distribution platforms. The fixed licensing fees shall equal to and shall not be less than the proportion of revenue/profit to be shared to the Group calculated by the above method.

The Business Development Team will seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable and compare the commercial terms (including but not limited to licensing value of the subject intellectual property, revenue/profit sharing arrangement, terms of cooperation and availability of co-investment or co-development right) offered by those Independent Third Parties with those offered by the Retained Tencent Group.

In making the decision as to whether the Group should cooperate with the Retained Tencent Group (whether with or without involvement of other third parties), other factors (beside the aforementioned commercial terms) that the Business Development Team will consider include but are not limited to the revenue or profit that may be brought by the proposed transactions, production capability, distribution channels (and their end-user/customer base) and financial resources of the counterparties. The Group will only enter into IP Cooperation CCTs when, from the Business Development Team's perspective, the commercial value of the subject intellectual properties can be maximized and the relevant IP Cooperation CCTs are in the best interests of the Company and the Shareholders as a whole.

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, the Business Development Team will conduct feasibility study and separate review of the cooperation and consider the fairness of pricing policies and the benefits and risks of such cooperation on a case-by-case basis.

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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 in its own and the business model is new to the market. The board of directors of New Classics Media will consider the historical commercial value of comparable television series and films sold by New Classics Media 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 theme, price per episode, popularity and targeted end-users.

In respect of audio and comics works not operated by the Group specifically, although the Group does not have the power in determining the final price of audio and comics works 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 audio and comics works with the Retained Tencent Group, and such agreements will specify the price that the Retained Tencent Group will charge the end users for the audio and comics works. 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.

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs for the three years ended December 31, 2018 and the eight months ended August 31, 2019 are set out as follows:

	For the year ended December 31,			For the eight months ended August 31,
	2016	2017	2018	2019
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>
Fees paid by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	46,774	111,621	265,214	79,343 ^(Note)

Note: The Group and the Retained Tencent Group had adopted a more pragmatic approach on the selection of subject IPs for adaptation to cater for the changing market demands in 2019 and therefore fewer IPs were selected for adaptation, leading to a lower transaction amount of IP Cooperation CCTs for the eight months ended August 31, 2019. The Company currently expects that the IP Cooperation CCTs (without taking into account the licensing of Scripts IPs) for the two years ending December 31, 2021 will resume growth when compared to the estimated transaction amount of IP Cooperation CCTs for the year ending December 31, 2019.

LETTER FROM THE BOARD

Proposed Revision of Annual Caps and Basis of Determination

The annual caps under the 2019 IP Cooperation Framework Agreement prescribe that: (i) the revenue derived from the IP Cooperation CCTs (excluding audio and comics works not operated by the Group) during one financial year shall not exceed 6% of the audited revenue of the Company in respect of the immediate preceding financial year (the “**Non-monetary Cap**”); (ii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the audio works which are not operated by the Group shall not exceed RMB9.0 million, RMB11.0 million and RMB13.5 million respectively for the three years ending December 31, 2021; (iii) the annual licensing fees payable by the Retained Tencent Group to the Group in respect of the licensing of the comic works which are not operated by the Group shall not exceed RMB1.0 million, RMB2.0 million and RMB3.0 million respectively for the three years ending December 31, 2021 (collectively, the “**Existing Annual Caps**”).

The Board proposed to revise the Existing Annual Caps and set the annual caps for the revenue of the Company derived from the IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 (“**New Annual Caps**”) as below:

	For the year ending December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Fees payable by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	950,000	1,300,000	1,700,000

The New Annual Caps were determined by the Board taking into account the following:

- (a) *New business strategy of New Classics Media*: the New Annual Caps in respect of the revenue derived from the IP Cooperation CCTs are primarily attributable to the diversification of the business strategy of New Classics Media. Historically, New Classics Media, a wholly-owned subsidiary of the Company, has been principally engaged in the production of television series and films and related entertainment business in the PRC. Under the traditional production model, New Classics Media is in charge of development and production of television series and films, and distribution of the broadcasting rights of the pertinent television series or films to television stations, theatres and/or online video platforms. Recently, the industry is experiencing marco changes and has entered the consolidation phase, where production houses with lower quality contents are faced with increasing distribution uncertainty. In addition, the competition among the online video platforms has also

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been increasing. As such, the demands for high-quality contents from online video platforms are more vigorous. Upon accessing the current market situation, New Classics Media began to innovate its business model in mid-2019 to optimize the return on investment and maximize its core competency in content planning and production. Under the new business model, New Classics Media will first pick certain Scripts IPs for selection by online video platforms, followed by negotiations between New Classics Media and the relevant online video platform on the licensing fees for the selected Scripts IP. Based on the current negotiations with online video platforms such as the Retained Tencent Group, the licensing fee for the Scripts IPs under such new business model would adopt a fixed fee model. After a fixed amount of licensing fee is agreed, New Classics Media will then license to the relevant online video platforms the relevant Scripts IPs, based on which the online video platforms will select production houses to produce the pertinent films and television series. Such new business model will enable New Classics Media to fully unlock its core competency in content planning and production and secure buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time when compared with the traditional production model. The Board believes that the new business model would not have negative impacts on the business and operations of New Classics Media. The Company also believes that this new business model would also be 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. New Classics Media is negotiating with various online video platforms, including the Retained Tencent Group, on establishing cooperation based on this new business model;

- (b) *Fixed fee model for licensing of Scripts IPs:* based on the current negotiations with the Retained Tencent Group, the Company estimated that the licensing of the Scripts IPs under the new business model of New Classics Media would adopt a fixed fee model with licensing fees ranging from RMB50.0 million to RMB400.0 million per Scripts IP, taking into account, including but not limited to, the estimated popularity and commercial value of the Scripts, length and form of the adaptations, estimated revenue to be generated from the adaptations of the Scripts IPs and investment and production costs required for subsequent adaptation and monetization of the Scripts IPs. The Company also contemplates that, based on the current negotiations with the Retained Tencent Group, a total of four to five Scripts IPs would be licensed to the Retained Tencent Group for the year ending December 31, 2019, with an annual increase of one to two Scripts IPs for the year ending December 31, 2020 and 2021. As such, it is estimated that the licensing fee in respect of the Scripts IPs will account for a very substantial part of the revenue of the Company derived from the IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement, while the rest of the IP Cooperation CCTs will primarily focus on adaption of the Group's literary works into games, films/televisions, comics and/or animations. In estimating the revenue to be derived from the rest of these IP Cooperation CCTs for the year

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ending December 31, 2019, the Company has also taken into account the historical amounts for the eight months ended August 31, 2019 and the contracts entered or to be entered into with the Retained Tencent Group by December 31, 2019; and

- (c) the Board has estimated the revenue to be derived from the IP Cooperation CCTs for the year ending December 31, 2020 and 2021 taking into account (i) the licensing fees estimated with reference to the number of Scripts IPs to be licensed to the Retained Tencent Group for the two years ending December 31, 2021 and the licensing fee per Scripts IP as disclosed in (b) above; and (ii) the revenue derived from the rest of the IP Cooperation CCTs, determined with reference to the estimated transaction amount for the rest of the IP Cooperation CCTs for the year ending December 31, 2019, with an assumed growth taking into account (1) the compound annual growth rate of 138.1% on the revenue derived from the IP Cooperation CCTs for the three years ended December 31, 2018; (2) the compound annual growth rate of 15.47% of the number of the Group's intellectual properties available for licensing and adaptation and the increase in monetization value of the Group's intellectual properties whereby its literary titles grew from 8.4 million as of December 31, 2016 to 11.2 million as of December 31, 2018; and (3) the estimated rapid growth in the intellectual property adaptation market based on the report titled China Pan Entertainment Industry Ecology White Paper 2017-2018 (中國泛娛樂產業生態白皮書 2017-2018) issued by Analysys (易觀), a leading provider of big data analysis products and service in the PRC with coverage over 2.39 billion smart terminals and 0.6 billion users as of June 30, 2019, which forecasted that the annual growth rate of the entertainment industry market (including games, films, television and web series, animations, digital music and digital literary works) for the year ending December 31, 2020 to be 12.46%.

Notwithstanding that the Company has previously considered that it was unsuitable for monetary annual caps to be adopted for the existing IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement for the reasons as set out in the 2019 CCT Renewal Announcements and the 2019 CCT Renewal Circular, the Company considered that, for the factors as set out above and in particular the licensing fee in respect of the licensing of Scripts IPs is expected to account for a very substantial portion of the New Annual Caps (i.e. more than 70% of the New Annual Caps for each of the three years ending December 31, 2021) and the fixed fee model of such licensing significantly enhances the practicability of the Company to set the New Annual Caps in monetary terms, the revision of the Existing Annual Caps (including the Non-monetary Caps) to the New Annual Caps represents the best effort of the Company to comply with Rule 14A.53 of the Listing Rules to set the annual caps under the 2019 IP Cooperation Framework Agreement in monetary terms.

The agreement between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) which reflects the revised annual caps will take effect subject to the approval by independent Shareholders.

LETTER FROM THE BOARD

Reasons and Benefits for Entering into the 2019 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 platforms including the Retained Tencent Group platforms, including, among others, copyright licensing for adaptation of the Group's literary works sourced from the Group's online community into films, television and web series, PC and mobile games and animations. The Retained Tencent Group is a leading player in the Internet, social media and entertainment industries in the PRC with an extensive network coverage and 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 platform in the PRC and the cooperation with the Retained Tencent Group on the licensing of Scripts IPs would allow the Company to leverage on the resources and leading industry position of the Retained Tencent Group to unlock the competency of the Group in content planning and production.

INTERNAL CONTROL MEASURES

With regard to the 2019 IP Cooperation Framework Agreement, the Company has established pertinent internal procedures and implements these procedures for various departments involved in the IP Cooperation CCTs to follow to ensure that the relevant requirements will be duly complied with. The executive Directors will supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with different departments and inquiries into the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement), and the Board will also conduct regular review of the transactions underlying the 2019 IP Cooperation Framework Agreement. In particular, the senior management of the Company will report to the independent non-executive Directors on a quarterly basis on the 2019 IP Cooperation Framework Agreement and the underlying transactions, covering, among others, whether the relevant pricing policy has been followed.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature business, and is a pioneer of China's online literature market and operates the leading online literature platforms. Shanghai Yueting is a direct 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 service and the marketing planning service.

Tencent and its subsidiaries are principally engaged in the provision of value-added services and online advertising services to users in the PRC. Tencent Computer is principally engaged in the provision of internet value-added services and advertisement services in the PRC.

LETTER FROM THE BOARD

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 the 2019 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 annual caps for the 2019 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 18 to 19 of this circular, which contains its recommendation to the Independent Shareholders in relation to the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps for each of the three years ending December 31, 2021). Your attention is also drawn to the letter of advice from the Independent Financial Advisor set out on pages 20 to 34 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement, and the principal factors and reasons taken into account in arriving at its recommendation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 39 to 40 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolution will be proposed to Shareholders to consider and approve the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 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, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and

LETTER FROM THE BOARD

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), Qinghai Lake Investment Limited (directly holding 230,705,634 Shares) and Tencent Mobility Limited (directly holding 78,337,470), are required under the Listing Rules to abstain from voting on the resolution on approving the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement, at the Extraordinary General Meeting. Please refer to Appendix I 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.

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 proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement were determined after arm’s length negotiation, and the transactions contemplated under the 2019 IP Cooperation Framework Agreement 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 the revision of annual caps under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 and their views and recommendation are included in this circular dispatched by the Company.

LETTER FROM THE BOARD

Mr. James Gordon Mitchell, Mr. Lin Haifeng and Ms. Chen Fei, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolution approving the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under the 2019 IP Cooperation Framework Agreement. Save as disclosed above, none of the other Directors have abstained from voting on the relevant resolution at the Board meeting.

RECOMMENDATION

The Directors consider that the proposed resolution for the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement is in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favor of the resolution to be proposed at the Extraordinary General Meeting.

The Independent Board Committee, having taken into account the advice of Somerley, consider that the proposed revision of annual caps and the transactions contemplated under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 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 the proposed revised annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement 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 2019 IP Cooperation Framework Agreement.

阅文集团
CHINA LITERATURE LIMITED
阅文集团
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 772)

October 23, 2019

To the Independent Shareholders

Dear Sirs or Madams,

THE PROPOSED REVISION OF ANNUAL CAPS UNDER THE 2019 IP COOPERATION FRAMEWORK AGREEMENT

We refer to the circular dated October 23, 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in this circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the proposed revision of annual caps and the transactions contemplated under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 are conducted in ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. 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 the proposed revision of annual and the transactions contemplated under the 2019 IP Cooperation Framework Agreement for the three years ending December 31, 2021 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 Shareholder as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the proposed revision of annual caps for the three years ending December 31, 2021 under the 2019 IP Cooperation Framework Agreement.

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

October 23, 2019

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

Dear Sirs,

PROPOSED REVISION OF ANNUAL CAPS UNDER THE 2019 IP COOPERATION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of the annual caps (the “**Revised Annual Caps**”) under the 2019 IP Cooperation Framework Agreement, details of which are contained in the circular of the Company to the Shareholders dated October 23, 2019 (the “**Circular**”), of which this letter forms a 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. As such, the transactions contemplated under the 2019 IP Cooperation Framework Agreement (the “**Continuing Connected Transactions**”) between the Group and members of the Retained Tencent Group constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Revised Annual Caps is more than 5%, the Continuing Connected Transactions (including the Revised Annual Caps) 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 2019 IP Cooperation Framework Agreement, Tencent and its associates are required under the Listing Rules to abstain from voting on the ordinary resolution on approving the Revised Annual Caps at the Extraordinary General Meeting.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 the Continuing Connected Transactions (including the Revised Annual Caps) are 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, Somerley has acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to certain connected transactions of the Group, details of which are set out in the circulars of the Company dated April 12, 2018, September 28, 2018 and April 9, 2019. The past engagements were limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagements, Somerley received normal professional fees from the Company. Notwithstanding the past engagements, 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 2019 IP Cooperation Framework Agreement, (ii) the interim report of the Company for the six months ended June 30, 2019 (the “**2019 Interim Report**”), (iii) the annual report of the Company for the year ended December 31, 2018, and (iv) other 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 and associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. 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 and operates the leading online literature platforms. The Group has continued strengthen its content offering and increase the number of high-quality literary works and writers on its platform. For example, according to the 2019 Interim Report, the Group has launched a new free-to-read business model, through Tencent's Mobile QQ and QQ Browser Apps, to allow users to read content for free while the Group monetize its content through advertising. As at June 30, 2019, the Group had approximately 7.8 million writers and approximately 11.7 million literary works, and for the first half of 2019, the Group had approximately 217.1 million average monthly active users ("MAU") on its self-owned platforms products and self-operated channels on Tencent products, and approximately 70 literary works licensed to third-party partners for adaptation.

New Classics Media, a wholly-owned subsidiary of the Group since completion of its acquisition in October 2018, is principally engaged in the production of television series and films and related entertainment business in the PRC. As set out in the 2019 Interim Report, on top of developing original content itself, New Classics Media has been working with the Group to identify the IP content suitable for adaptation in-house and licensing to downstream partners. Moreover, the Group's IP-centric monetisation model has now expanded to include online reading, television and film production, animation co-production and online game operations, and a number of projects in the pipeline that will adapt the Group's IP into various entertainment formats.

Tencent

Tencent is a leading player in the internet, social media and entertainment industries in the PRC with an extensive network coverage and a vast user base. According to Tencent's 2019 interim report, as at June 30, 2019, Tencent's major social communication platforms, being Weixin and WeChat, had a combined MAU of 1,133 million, and Tencent's major video platform, being Tencent Video, had a total member subscription of 96.9 million. The Retained Tencent Group offers integrated value-added services to the users and enterprise customers through operation of its various platforms, integrating a broad range of online and offline services and entertainment-oriented contents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group has been cooperating with the Retained Tencent Group in multiple areas, and the roles of the Group and the Retained Tencent Group are mutually complementary and beneficial to each other.

2. Background to and reasons for the Revised Annual Caps

The intellectual property operations of the Group (the “**IP Business**”) has experienced a substantial growth in recent years, with its revenue increasing at a compound annual growth rate of approximately 101.3% between 2016 and 2018, from approximately RMB247.4 million in 2016 to approximately RMB1,003.0 million in 2018. During the first half of 2019, revenue generated from the IP Business recorded a further growth, amounting to approximately RMB1,215.0 million, surpassing the full-year revenue in 2018. This was in particular contributed by the acquisition of New Classics Media in October 2018, the operating result of which has been fully reflected in 2019.

As stated in the 2019 Interim Report, the video industry in China is undergoing adjustments which impact New Classics Media’s television station and online video partners, and thus New Classics Media’s own ability to release content. It is also stated in the letter from the Board that under the traditional production model, New Classics Media is in charge of development and production of television series and films, and distribution of the broadcasting rights of the pertinent television series or films to television stations, theatres and/or online video platforms. Recently, the industry in which New Classics Media is operating in is experiencing macro changes and has entered the consolidation phase, where production houses with lower quality contents are faced with increasing distribution uncertainty. In addition, the competition among the online video platforms has also been increasing. As such, the demands for high-quality contents from online video platforms are more vigorous.

New Classics Media began in mid-2019 to innovate a new business model, where it will first pick certain Scripts IPs for selection by online video platforms, followed by negotiations between New Classics Media and the relevant online video platforms (including the Retained Tencent Group) on the licensing fees for the selected Scripts IP. After a fixed amount of licensing fee is agreed, New Classics Media will then license to the relevant online video platforms the relevant Scripts IPs, based on which the online video platforms will select production houses to produce the pertinent television series and films. The new business model is expected to improve certainty of return generated from the licensing of Scripts IPs at an earlier time and optimize operating cash flows when compared to the traditional production model, and therefore an earlier return on investment.

The Company believes that the online video platforms, which will be able to secure high quality IPs from New Classics Media at an earlier stage while maintaining production flexibility, will welcome the new business model. The management of the Group informed us that New Classics Media has been liaising with the major online video platforms in the PRC for the licensing of Scripts IPs, and it is currently expected that the licensing fees of the Scripts IPs will generally be agreed through a fixed fee model. Based on the current negotiations with the Retained Tencent Group, the licensing fees for a particular Scripts IP under the new business model of New Classics Media range from RMB50 million to RMB400 million, after taking into account various commercial factors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Currently, the Continuing Connected Transactions between two groups are governed under the 2019 IP Cooperation Framework Agreement, as approved by the then independent shareholders of the Company at a shareholders' meeting on May 17, 2019. The existing annual caps (the “**Existing Annual Caps**”) under the 2019 IP Cooperation Framework Agreement prescribe that for each of the three years ending December 31, 2021, (i) revenue derived from the IP Cooperation CCTs (excluding item (ii) below) shall not exceed 6% of audited revenue of the Group in the preceding financial year, and (ii) annual licensing fees in respect of the audio and comics works not operated by the Group shall not exceed relevant cap amounts, ranging from RMB10 million to RMB16.5 million in aggregate. As a reference, the Existing Annual Cap in 2019 for item (i) above is approximately RMB302.3 million, i.e. 6% of the Group's audited revenue of approximately RMB5,038.3 million in 2018. Due to the new business model (i.e. licensing of Scripts IPs to online video platforms, including the Retained Tencent Group), in particular the expected substantial fixed licensing fee ranging from RMB50 million to RMB400 million for a particular Scripts IP and the expected rising number of Script IPs to be licensed in coming years, the above Existing Annual Caps are not expected to be adequate. Accordingly, the Group and the Retained Tencent Group agreed to revise the Existing Annual Caps.

As advised by the management of the Group, (i) save for the proposed revision of annual caps, other material terms of the 2019 IP Cooperation Agreement will remain unchanged, (ii) the transactions under the 2019 IP Cooperation Agreement will remain to be non-exclusive in nature, such that the Group is entirely free to choose its partners for the transactions with similar nature and has no obligation to engage the Retained Tencent Group to carry out the transactions.

3. Principal terms of the 2019 IP Cooperation Framework Agreement

Summarised below are the principal terms of the 2019 IP Cooperation Framework Agreement, and for further details, please see the sections headed “Proposed revision of annual caps under the 2019 IP Cooperation Framework Agreement” in the letter from the Board.

General

Pursuant to the 2019 IP Cooperation Framework Agreement, the Group agreed the cooperation in the content adaptation of the Group's literary works, distribution of the works (including but not limited to audio works and comics and excluding films, television series and animation) and/or the derivative rights of intellectual property of these works.

Forms of cooperation

The forms of cooperation under the 2019 IP Cooperation Framework Agreement include (i) adaptation by the Retained Tencent Group of the Group's literary works into films, television series, games, audio works, comics or animations, and (ii) licensing by the Group of the information network transmission rights of works (including audio works and comics but

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

excluding films, television series and animation) and/or the derivative rights of the intellectual property of these works to the Retained Tencent Group. As confirmed by the management of the Group, the licensing of Scripts IPs falls under the scope of the 2019 IP Cooperation Framework Agreement.

For the avoidance of doubt, in the event that the Group cooperates with the Retained Tencent Group in the licensing of the internet information broadcast rights and broadcast rights of audiovisual works including films, television series and animation, such transactions will be conducted and carried out under the distribution framework agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) dated August 13, 2018.

Fee arrangements

The fee arrangements relating to the IP Cooperation CCTs shall be as follows:

- (a) a fixed payment from the licensee to the licensor,
- (b) a percentage of revenue/profit to be shared between the parties, or
- (c) a mixture of the above (a) and (b).

Pricing policies

The pricing policies will vary from project to project. As to the IP Cooperation CCTs (including in particular 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 IP Cooperation CCTs 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 and potential cooperation between the Group and the Retained Tencent Group.

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As to the licensing of the audio works and comic, the pricing policies will be determined with reference to the prevailing market price and average revenue/profit sharing percentage in the industry, ranging from 60% to 80% (portion to be shared by the Group, being owner of the relevant IP), and taking into account various commercial factors, including, among others, the nature, popularity and commercial potential of the relevant audio and comics works, and the quantity and quality of the Retained Tencent Group's distribution platforms. The fixed licensing fees shall equal to and shall not be less than the proportion of revenue/profit to be shared to the Group calculated by the above method.

Based on our discussions with the management of the Group, the Group will not be involved in the operation and pricing strategies relating to the licensing of audio and comics works not operated by the Group. In other words, the Group will not be involved in the price setting process, where the final price will be charged by the Retained Tencent Group to the relevant users for audio and comics works not operated by the Group. Notwithstanding the above, the Business Development Team will adopt comparative pricing proposals when negotiating agreements for specific audio and comics works 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.

Term

The 2019 IP Cooperation Framework Agreement was approved by the independent shareholders of the Company at a general meeting of the Company dated May 17, 2019, and it is currently effective for a term from May 17, 2019 to December 31, 2021. The agreement between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) which reflects the Revised Annual Caps will take effect subject to the approval by Independent Shareholders at the Extraordinary General Meeting.

Payment and settlement terms

The relevant parties shall enter into implementation agreements under the 2019 IP Cooperation Framework Agreement to specify the payment and settlement terms.

Comparison of terms with Independent Third Parties

We have discussed with the management of the Group the pricing policies of the existing IP Cooperation CCTs as set out above and the terms under the 2019 IP Cooperation Framework Agreement. We have also reviewed a list of the existing IP Cooperation CCTs and the selected sample contracts, which were selected on a random basis from all contracts that are effective during the period from January 1, 2019 to June 30, 2019 (the "**Sample Contracts**"). 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. In view of the Sample Contracts covering various types of adaptation cooperation, including games, films, televisions and comics, we therefore consider the Sample Contracts selected to be fair and representative.

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On the basis of the Sample Contracts, we note that the IP Cooperation CCTs generally followed the revenue/profit sharing arrangement, and the relevant licensing value for each type of adaptation and licensing of the Group's IP right varied significantly, which in turn depends on various commercial and other factors, as detailed in the above. The fee payments were settled on a monthly or quarterly basis. The management confirmed to us that the variety of fee arrangements included in the 2019 IP Cooperation Framework Agreement is to provide the Group flexibility to formulate the optimal pricing terms, and the rationale for allowing a "fixed" element in the fee arrangements with the Retained Tencent Group is to potentially allow the Group to maximize the relevant commercial value and return for the Group's contents.

For the purpose of analysing the pricing policies, we have obtained the sample contracts for similar adaptation and licensing cooperation arrangements between the Group and Independent Third Parties, selected on a random basis from the transaction list covering the period from January 1, 2019 to June 30, 2019. We note that the pricing mechanisms and payment terms with Independent Third Parties are consistent with those stated in the 2019 IP Cooperation Framework Agreement and/or the Sample Contracts reviewed by us. Although there was no historical licensing of Scripts IPs between the Group and the Retained Tencent Group, we have obtained and discussed with the management of the Group the sample contracts entered or to be entered between the Group and an independent online video platform, and understand that they follow a fixed fee model and the licensing fees vary widely, however, within the fee range of RMB50 million to RMB400 million for a particular Scripts IP that are under current negotiations with the Retained Tencent Group.

Management of the Group informed us that the exact terms of the underlying transactions will only be agreed upon the entering into the implementation agreements, and that the fee arrangements under the IP Cooperation Framework Agreement shall be consistent with the historical and the prevailing commercial practices with other Independent Third Parties, and subject to the internal control measures, including comparison of commercial terms with Independent Third Parties and internal review procedures, which are further discussed in below section.

4. Internal control measures

As set out in the letter from the Board, the Company has established pertinent internal procedures and implements these procedures for various departments involved in the IP Cooperation CCTs to follow to ensure that the relevant requirements will be duly complied with.

The Business Development Team will seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable, and will compare the commercial terms (including the licensing value of the subject intellectual property, revenue/profit sharing arrangement, terms of cooperation and availability of co-investment or co-development right) offered by Independent Third Parties with those offered by the Retained Tencent Group. In making the decision as to whether the Group should cooperate with the Retained Tencent Group (whether with or without involvement of other third parties), the Business Development

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Team will consider various commercial and other factors, including the revenue or profit that may be brought by the proposed transactions, production capability, distribution channels (and their end user/customer base) and financial resources of the counterparties. The Group will only enter into the Continuing Connected Transactions when, from the Business Development Team's perspective, the commercial value of the subject intellectual properties can be maximized and the relevant Continuing Connected Transactions are 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 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, the Business Development Team will conduct feasibility study and separate review of the cooperation and consider the fairness of pricing policies and the benefits and risks of such cooperation on a case-by-case basis. The executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with different departments and inquiries into the transactions undertaken pursuant to the 2019 IP Cooperation Framework Agreement), and the Board will also conduct regular review of the transactions underlying the 2019 IP Cooperation Framework Agreement. The senior management of the Company will also report on the 2019 IP Cooperation Framework Agreement and the underlying transactions, including as to whether the relevant pricing policy has been followed, to the independent non-executive Directors on a quarterly basis.

As set out in the letter from the Board, in respect of the licensing of Scripts IPs, it is not directly comparable with those between the Group and other online video platforms as each Script IP is unique in its own and the business model is new to the market. The board of directors of New Classics Media, whose members are experienced in, among others, script writing, IP adaptation, filing and production, and make commercial decisions on its business affairs independent from the Group, will consider the historical commercial value of comparable television series and films sold by New Classics Media to third parties under the traditional production model and compare against the licensing fees of the Scripts IPs, taking into account the factors, including theme, price per episode, popularity and targeted end-users.

We are advised by the management of the Group that none of the directors of New Classics Media acting as a representative and being employees of the Retained Tencent Group, and no common director, senior management or staff of the Group and the Retained Tencent Group has been and will be involved in the above internal process. We have reviewed the relevant internal control policies relating to the Continuing Connected Transactions, and have received confirmation from the management of the Group that the internal procedures and the relevant pricing policy have been, and will continue to be followed, to ensure the transaction terms with the Retained Tencent Group are no less favourable to the Group than those offered by independent third parties. In our view, the above internal control measures are important for the conduct of the Continuing Connected Transaction, since exact terms of the transactions will only be agreed upon the entering into of the implementation agreements. In these circumstances, we concur that the solicitation of cooperation with other independent third parties, and the comparison of the terms with those offered by the Retained Tencent Group, will

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

help the Group to ensure that the Continuing Connected Transactions are in no less favourable terms to the Group and in the interests of the Company and the Shareholders as a whole. Further, 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”.

5. The Revised Annual Caps

(a) Review of historical transactions

Set out below are the historical transaction amounts and the relevant annual caps for the IP Cooperation CCTs for the three years ended December 31, 2016, 2017 and 2018 and for the eight months ended August 31, 2019:

	For the year ended December 31,			For the eight months ended
	2016	2017	2018	August 31, 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Fees paid by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	46,774	111,621	265,214	79,343
As a percentage of the Group's audited revenue in the immediate preceding financial year	2.9%	4.4%	6.5%	1.6%
Relevant annual caps	N/A	306,824 (Note 1)	498,908 (Note 2)	312,295 (Note 3)
Utilization rate	N/A	36.4%	53.2%	38.1% (Note 4)

Notes:

(1) Being 12% of the Group's audited revenue in 2016

(2) Being the sum of (i) 12% of the Group's audited revenue in 2017 and (ii) the aggregate cap amount in respect of the audio and comics works not operated by the Group in 2018

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(3) *Being the sum of (i) 6% of the Group's audited revenue in 2018 and (ii) the aggregate cap amount in respect of the audio and comics works not operated by the Group in 2019*

(4) *Based on the relevant eight months transaction amount and pro rata annual cap amount*

As shown in the above table, the transaction amount increased by approximately 138.6% to approximately RMB111.6 million in 2017, and further by approximately 137.6% to approximately RMB265.2 million in 2018, principally resulting from the increase in related commercial value of the underlying IP and the growth in the number of adaptation and licensing transactions and between two groups. The transaction amount was approximately RMB79.3 million in the first eight months of 2019. As percentages of the Group's audited revenue in the respective immediate preceding financial year, the transaction amount accounted for approximately 2.9%, 4.4%, 6.5% and 1.6% respectively for the periods presented. Despite the substantial growth in the IP Business in recent years, the utilization rate of the relevant annual cap in the first eight months of 2019 was relatively low. As advised by the management of the Group, this was mainly due to (i) the rising demand from the Group's content adaptation partners for its literary titles, and (ii) the adoption of a more pragmatic approach by two groups on the selection of subject IPs for adaptation in order to cater for the changing market demands in 2019, which in turn resulted in a reduced number of adaptation cooperation with the Retained Tencent Group.

The above historical transactions did not reflect the proposed change in business strategy to license Scripts IPs to online video platforms (including the Retained Tencent Group), which is expected to substantially increase the transaction values. Further, according to the letter from the Board, the Company currently expects that the IP Cooperation CCTs (without taking into the licensing of Scripts IPs) for the two years 2020 and 2021 will resume growth when compared to the estimated transaction amount for the year 2019.

(b) Assessment to the Revised Annual Caps

The Company has previously stated in the 2019 CCT Renewal Circular the reasons for the conclusion that it was unsuitable for monetary annual caps to be adopted for the existing IP Cooperation CCTs under the 2019 IP Cooperation Framework Agreement. Notwithstanding the above, as discussed in the section headed "Background to and reasons for the Revised Annual Caps", the licensing of Scripts IPs is a new business model that New Classics Media began in mid-2019 with online video platforms in the PRC, including the Retained Tencent Group, which has yet to be considered and reflected in the Existing Annual Caps at the time when they were determined back in March 2019.

As set out in the letter from the Board, the licensing of Scripts IPs is expected to account for a very substantial portion of the Revised Annual Caps and its fixed fee model significantly enhances the practicability of the Company to set the Revised Annual Caps in monetary terms. The Directors are of the view that the revision of the Existing Annual Caps (including cap amount expressed in monetary and non-monetary terms as detailed in previous section) to the Revised Annual Caps (i.e. one set of cap amount applicable to all IP Cooperation CCTs) represents the best effort of the Company to comply with Rule 14A.53 of the Listing Rules. We consider the presentation of annual caps in monetary terms may in general provide a higher

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visibility to the Independent Shareholders on the level of future expected continuing connected transactions and given the above, we consider the change from percentage basis (under the Existing Annual Caps) to monetary basis (under the Revised Annual Caps) to be appropriate.

Set out below are the Revised Annual Caps governing all the transactions contemplated under the IP Cooperation Framework Agreement, for the three years ending December 31, 2019, 2020 and 2021 as follow:

	For the year ending December 31,		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees payable by the Retained Tencent Group to the Group in respect of the cooperation in the content adaptation of the Group's literary works, distribution of works adapted from these literary works and licensing	950,000	1,300,000	1,700,000

In assessing the reasonableness of the Revised Annual Caps, we have obtained the underlying calculations relating to the projection of the Revised Annual Caps in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that more than 70% of the Revised Annual Caps for each of the three years ending December 31, 2021 represent the licensing fees for the Scripts IPs between New Classics Media and the Retained Tencent Group under the proposed new business model. The allowance for adaptation and licensing fees relating to other IP Cooperation CCTs as contained in the Existing Annual Caps will remain in the Revised Annual Caps.

When determining cap amount relating to the licensing of Scripts IPs in 2019, the Company has taken into account, the estimated licensing fees for the four to five Scripts IPs that are currently under negotiations with the Retained Tencent Group, on the assumption that a fixed fee model would be used, with licensing fees ranging from approximately RMB50 million to RMB400 million for a particular Scripts IP. For each of the year 2020 and 2021, the Company has assumed that there would be one or two additional Scripts IPs compared to the previous year, with similar licensing fee scale, to be licensed to the Retained Tencent Group, which we consider to be reasonable for the purpose of determining the cap amount. As such, the relevant cap amount will increase each year by approximately 20% to 30% accordingly.

To substantiate the cap amounts above, we have obtained the relevant correspondences, including draft agreements for the selected Scripts IPs that are currently under negotiation between two groups, and note that the relevant commercial value of the selected Scripts IPs are broadly in line with the cap amounts assumed. We have also discussed with the management of the Group and understand 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

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Retained Tencent Group, for the cooperation under its new business model. In addition, we understand from the management of the Group that (i) New Classics Media has an in-house literature planning team and a number of long-term contracted scriptwriters, both of them will continue to create original scripts and conduct adaptation on scripts or IPs of the Group and will decide the best approach (either the traditional production approach and the new business model) to monetize the Scripts IPs newly created, together with those reserve as discussed above, in the near future; (ii) New Classics Media will continue to carry out the existing production and distribution of television series and movies as planned, and at the same time to conduct licensing of Scripts IPs to online video platforms. Accordingly, the Directors believe that the new business model would not have negative impacts on the business and operations of New Classics Media.

When determining the cap amount relating to other IP Cooperation CCTs, the Company has taken into account, among others, (i) the historical IP Cooperation CCTs transaction amount and the related compound annual growth of approximately 138.1% from 2016 to 2018, as discussed in the above section, (ii) the contracts for other IP Cooperation CCTs entered or to be entered into with the Retained Tencent Group before the end of 2019, (iii) the growing number of the Group's intellectual properties available for licensing and adaptation and the increasing monetization value of the Group's intellectual properties, and (iv) the estimated growth rate in the intellectual property adaptation market. In this respect, we note that the works of the Group's literature increased at an annual compound growth rate of approximately 15.5% from 8.4 million as at December 31, 2016 to 11.2 million as at December 31, 2018. Moreover, as stated in the 2019 Interim Report, the Group has made progress in licensing of its IP for adaptation into other formats, such as film, television series, animations and mobile games, which was evidenced by the increasing number of the Group's online literary works licensed for adaptation into other forms of entertainment by third-party partners. As disclosed in the Company's publications, there were over 130 and around 70 works being licensed by the Group for adaptation in 2018 and in the first six months of 2019 respectively, implying business potential for other IP Cooperation CCTs.

As a further check, we have performed an independent research on the outlook of the PRC entertainment industry in the coming years. Based on the findings published in 2018 by an international professional service firm, the market size for each of PRC online video, films, traditional television, music is expected to grow at a compound annual growth rate of between 7% and 17% between 2017 and 2022. The above also suggests the potential growth for the IP adaptation market in the PRC.

Our general view

New Classics Media is contemplating to diversify its business strategy to license the Scripts IPs to online video platforms, such as Tencent Video operated by the Retained Tencent Group, which is expected to bring substantial revenue to New Classics Media and the Group. Although there was no historical licensing transaction for the Scripts IPs with the Retained Tencent Group, the estimated licensing value of a particular Scripts IP may be as high as RMB400 million, as mentioned in the section headed "Background to and reasons for the

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Revised Annual Caps”, we consider it appropriate for the Group to set the higher cap amounts in the coming three years, catering for the estimated licensing fees for the Scripts IPs that are currently under negotiations with the Retained Tencent Group and allowing a reasonable level of allowance to cater for the intention to increase the cooperation in this aspect. Provided that the Continuing Connected Transactions are subject to the 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 measures to safeguard the Group’s interest (as summarised in the section above headed “4. Internal control measures”), the Group would have desirable flexibility in conducting its business if the Revised Annual Caps are tailored to future business activities. In assessing the fairness and reasonableness of the Revised Annual Caps, we have discussed with the management of the Group the factors taken into account as stated earlier in this section. We consider it reasonable for the Company to use the above factors in determining the Revised Annual Caps.

6. 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 Company’s annual report whether 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 Company’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;

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- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (iv) have exceeded the Revised 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);
- (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 Revised Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions (including the Revised Annual Caps) not being exceeded, and given the Company's internal safeguards in place, we are of the view that appropriate measures will be in place to monitor 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 Revised 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 ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Revised Annual Caps.

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 ten years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the number of issued Shares was 1,015,567,246 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 Securities and Futures Ordinance

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, 2018, 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, 2018, 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 the executive Directors has entered into a service contract with the Company on June 23, 2017 for an initial term of three years with effect from the date the appointment approved by the Board until the third annual general meeting of the Company since November 8, 2017 (whichever is sooner), subject to termination as provided in the service contract.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years on October 19, 2017 commencing from October 26, 2017 until the third annual general meeting of the Company since the November 8, 2017, whichever ends earlier.

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. Wu Wenhui ⁽²⁾	Interest in controlled corporations	27,100,626	Long position	2.67%
Mr. Liang Xiaodong ⁽³⁾	Beneficiary of a trust	1,600,000	Long position	0.16%
	Interest in controlled corporation	2,400,000	Long position	0.24%
Mr. James Gordon Mitchell	Beneficial owner	161,352	Long position	0.02%
Mr. Cao Huayi ⁽⁴⁾	Interest in controlled corporation	49,466,635	Long position	4.87%

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 ⁽¹⁾ (%)
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	7,114,040 ⁽⁵⁾	0.07%
	Tencent Music Entertainment Group	Beneficial owner	456	0.00%
Mr. Lin Haifeng ⁽⁶⁾	Tencent Holdings Limited	Beneficial owner	303,997	0.00%
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	0.00%
Ms. Chen Fei	Tencent Holdings Limited	Beneficial owner	108,107 ⁽⁷⁾	0.00%
	Shenzhen Litong Industry Investment Fund Co., Ltd.	Beneficial owner	125,000,000	25.00%
Mr. Wu Wenhui ⁽⁸⁾	Shanghai Hongwen Networking Technology Co., Ltd.	Interest of controlled corporation	3,462,000	34.62%
Mr. Wu Wenhui ⁽⁸⁾	Shanghai Yuewen Information Technology Co., Ltd.	Interest of controlled corporation	3,462,000	34.62%

Notes:

- (1) The calculation is based on the total number of shares in issue of associated corporations as of the Latest Practicable Date.
- (2) Mr. Wu Wenhui holds the entire share capital of Grand Profits Worldwide Limited. Hence, Mr. Wu Wenhui is deemed to be interested in the 27,100,626 Shares held by Grand Profits Worldwide Limited.
- (3) Mr. Liang Xiaodong is entitled to RSUs equivalent to 1,600,000 Shares (subject to vesting conditions), which are held under a trust. He is also deemed to be interested in the 2,400,000 shares held by Equal Talent Group Limited in which he holds the entire share capital.
- (4) Mr. Cao Huayi is interested in 100% and 43.63% of C-Hero Limited and X-Poem Limited respectively and is therefore deemed to be interested in the 41,320,586 Shares and 8,146,049 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the share purchase agreement, respectively.
- (5) These interests comprise (i) 1,944,895 shares of Tencent, (ii) 88,860 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 5,080,285 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent.
- (6) These interests comprise (i) 169,662 shares of Tencent and (ii) 134,335 shares underlying Tencent in respect of the awarded shares granted to Mr. Lin Haifeng under share award schemes of Tencent.
- (7) These interests comprise (i) 40,934 shares of Tencent, (ii) 25,803 shares underlying Tencent in respect of the awarded shares granted to Ms. Chen Fei under share award schemes of Tencent, and (iii) 41,370 shares underlying Tencent in respect of the options granted to Ms. Chen Fei under share option schemes of Tencent.
- (8) Each of Shanghai Hongwen Networking Technology Co., Ltd. and Shanghai Yuewen Information Technology Co., Ltd. are owned as to 34.62% by Ningbo Meishan Yuebao, which in turn is held as to 83.88% by Mr. Wu Wenhui. Under the SFO, Shanghai Hongwen Networking Technology Co., Ltd. and Shanghai Yuewen Information Technology Co., Ltd. are associated corporations of the Company.

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, 2018 (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 AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company during normal business hours from the date of this circular up to November 7, 2019 (both days inclusive):

- (a) the 2019 IP Cooperation Framework Agreement;
- (b) Letter from the Independent Board Committee;
- (c) Letter from the Independent Financial Adviser;
- (d) Letter of consent from Somerley; and
- (e) Service contracts of the Directors.

NOTICE OF EXTRAORDINARY GENERAL MEETING

阅文集团

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 on Friday, November 22, 2019 at 9:30 a.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution.

Unless otherwise specified, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated October 23, 2019 (the “**Circular**”).

Ordinary Resolution

1. To consider and approve the proposed revision of annual caps under the 2019 IP Cooperation Framework Agreement.

By order of the Board

CHINA LITERATURE LIMITED

Mr. James Gordon Mitchell

Chairman of the Board and Non-executive Director

Hong Kong, October 23, 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

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:*

Block 6, No. 690 Bi Bo Road
Pudong Xinqu, Shanghai
People's Republic of China

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, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practice in Hong Kong), at least 48 hours before the time appointed for holding the 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 November 19, 2019 to November 22, 2019, 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, Wanchai, Hong Kong not later than 4:30 p.m. on November 18, 2019.
- (v) 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.