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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 RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS UNDER THE 2021 GAME COOPERATION AGREEMENT

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement by entering into (i) the 2021 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 literary works, audio works and comics) and/or licensing of the elements of these works, (ii) the 2022 Advertisement Cooperation Framework Agreement in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group, and (iii) the 2022 Online Platform Cooperation Framework Agreement in relation to the cooperation in the distribution of the Group's literary works and audio works through the Retained Tencent Group Channels.

On August 16, 2021, 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 2021 Game Cooperation Agreement in relation to, among other things, the joint operation of the games by the Retained Tencent Group or/and the Group.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement, (iii) the 2022 Online Platform Cooperation Framework Agreement and (iv) the 2021 Game Cooperation 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 2021 Game Cooperation Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform 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.

A circular containing, among other things, (i) details of the transactions contemplated under the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement, (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders, and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders, is expected to be dispatched to Shareholders by no later than November 24, 2021.

INTRODUCTION

The Board is pleased to announce that, on August 16, 2021,

- (1) Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement by entering into (i) the 2021 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 literary works, audio works and comics) and/or licensing of the elements of these works, (ii) the 2022 Advertisement Cooperation Framework Agreement in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group, and (iii) the 2022 Online Platform Cooperation Framework Agreement in relation to the cooperation in the distribution of the Group's literary works and audio works through the Retained Tencent Group Channels; and
- (2) 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 2021 Game Cooperation Agreement in relation to, among other things, the joint operation of the games by the Retained Tencent Group or/and the Group.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to (i) the announcement of the Company dated March 18, 2019 and the circular of the Company dated April 9, 2019 in relation to, among other things, the entering into the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement, and (ii) the announcement of the Company dated September 27, 2019 and the circular of the Company dated October 23, 2019, in relation to, among other things, the revision of the annual caps under the 2019 IP Cooperation Framework Agreement.

As disclosed in the announcements and the circulars of the Company mentioned above, the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement will expire on December 31, 2021.

As the Group intends to continue carrying out the transactions under the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement in the ordinary and usual course of business of the Group, on August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to renew the 2019 IP Cooperation Framework Agreement, the 2019 Advertisement Cooperation Framework Agreement and the 2019 Online Platform Cooperation Framework Agreement by entering into (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement, and (iii) the 2022 Online Platform Cooperation Framework Agreement.

As the scope of the 2021 IP Cooperation Framework Agreement has covered the cooperation under the 2019 IP Cooperation Framework Agreement, the 2019 IP Cooperation Framework Agreement will be terminated once the 2021 IP Cooperation Framework Agreement takes effect.

1. 2021 IP Cooperation Framework Agreement

Principal terms of the 2021 IP Cooperation Framework Agreement are set out as follows:

Date: August 16, 2021

Parties: (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)

Term: From the date of the Shareholders' approval to December 31, 2023

Subject matter: The Group agreed to the cooperation in the content adaptation of the Company's literary works, distribution of the works (including but not limited to literary works, audio works and comics) and/or licensing of the elements of these works (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements).

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

The 2021 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 associates 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 to its literary works with associates of Tencent separately and will not aggregate such transactions with the transactions contemplated under the 2021 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 audio-visual 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 11, 2020. For further details of the distribution framework agreement, please refer to the announcement of the Company dated August 11, 2020 and the circular of the Company dated November 10, 2020.

**Forms of
cooperation:**

Forms of cooperation under the 2021 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 movies, television series, games, audio works, animations or comics;
- licensing by the Group of the information network transmission rights of works (including but not limited to literary works, audio works and comics);
- licensing by the Group of the elements of literary works, audio works and comics (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) to the Retained Tencent Group.

Fee arrangements: The parties shall cooperate on the following terms for the fee in respect of the IP Cooperation CCTs:

- 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 2021 IP Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2021 IP Cooperation Framework Agreement.

Pricing Policy

(1) *In respect of the adaptation of the Group's literary works into games, films/televisions, comics and/or animations,*

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

(2) *In respect of the licensing of the scripts and related IP adaptation rights ("**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 works and comics distributed on the platforms not operated by the Group,*

- (v) the prevailing market price and average revenue/profit sharing percentage in the industry, which ranges from 50% (the Group): 50% (the Retained Tencent Group) to 80% (the Group): 20% (the Retained Tencent Group), and various commercial factors, including the nature, popularity and commercial potential of the relevant audio works and comics, and the quantity and quality of the Retained Tencent Group's distribution platforms. The fixed licensing fees shall equal to or more than the proportion of revenue/profit to be shared to the Group calculated by the above method.

(4) *In respect of literary works distributed on the platforms not operated by the Group,*

- (vi) the fixed fee with reference to the prevailing market price in the industry, and various commercial factors, including the nature, popularity and commercial potential of the relevant literary works, and the quantity and quality of the Retained Tencent Group's distribution platforms.

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

In respect of the licensing of Scripts IPs specifically, it is not directly comparable with those between the Group and other online video platforms as each Scripts IP is unique on its own. The board of directors of New Classics Media, a wholly-owned subsidiary of the Company, 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 the theme, price per episode, popularity and targeted end-users.

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

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs under the 2019 IP Cooperation Agreement for the two years ended December 31, 2020 and the six months ended June 30, 2021 are set out as follows:

	For the year ended December 31,		For the six months ended
	2019	2020	June 30, 2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i> <i>(unaudited)</i>
Total fees paid by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	581,204	538,632	450,476

Annual Caps and Basis of Determination

The proposed annual caps for the revenue of the Company derived from the IP Cooperation CCTs under the 2021 IP Cooperation Framework Agreement for the three years ending December 31, 2023 are set out as follows:

	For the year ending December 31,		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total fees payable by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	1,211,000	1,320,500	1,514,000

The above annual caps for the three years ending December 31, 2023 were determined taking into account the following factors:

- (a) *Fixed fee model for licensing of Scripts IPs*: New Classics Media licenses its Scripts IPs to online video platforms, based on which the online video platforms selects production houses to produce the pertinent films and television series. Such business model enables New Classics Media to fully unlock its core competency in content planning and production and secure the buyers for the Scripts IPs and return generated from the licensing of the Scripts IPs at an earlier time compared with the traditional production model. This business model is also welcomed by online video platforms because, from the perspective of online video platforms, it aligns with their strategy for high-quality content by enabling them to secure high quality IPs and content in advance while maintaining production flexibility. With reference to the historical revenue generated under such business model and based on the current negotiation with various online video platforms, including the Retained Tencent Group, the parties plan to increase the cooperation based on such business model. The potential licensing fees generated from such business model and the annual increase are estimated, taking into account, including but not limited to, the estimated popularity and commercial value of the Scripts, length and form of the adaptations, estimated revenue to be generated from the adaptations of Scripts IPs and investment and production costs required for subsequent adaptation and monetization of the Scripts IPs.
- (b) *Business strategy of the cooperation with the Retained Tencent Group*: The Group cooperates with different departments of the Retained Tencent Group on the adaption of the Group's literary works into games, films, televisions, comics and/or animations. The Group intends to expand its IP operation capability, of which licensing its IPs to industry-leading developers, including the Retained Tencent Group, for content adaptation. To facilitate IP licensing, the Group has established an IP-focused intermediate business platform with key functional segments including IP screening, IP planning, and ecosystem partnerships expansion. The Group is dedicated to building a deep and immersive IP universe. Apart from third-party partners across the industry, the Retained Tencent Group plays a significant role in adapting and distributing the Group's IP to maximize the commercial value of its content. The collaboration covers different segments, including comics, films, drama series, and games. In terms of comics, the Group and Shenzhen Tencent Comics Co., Ltd. (深圳市騰訊動漫有限公司, "**Tencent Comics**") have jointly announced a three-year project to adapt 300 works of the Group's online fiction into comics. Currently, more than 70 of the Group's literary works have been adapted into comics and released on the Tencent Comics channel. In terms of films and television series, Shanghai Tencent Pictures and Culture Communication Co., Ltd. (上海騰訊影業文化傳播有限公司), New Classics Media and the Group have established a partnership on serial development of premium IP franchises. In terms of games, the Group intends to strengthen its collaboration with the game teams of the Retained Tencent Group and license the Group's IP for high-quality adaptation. Leveraging the synergy of such cooperation, the Company expects a corresponding increase in revenue generated from IP cooperation.

- (c) the Board has estimated the revenue to be derived from the IP Cooperation CCTs for the year ending December 31, 2021, 2022 and 2023 taking into account (i) the annual increase of the number of Scripts IPs for the year ended December 31, 2020, (ii) the historical data and the compound annual growth rate of 42.51% on the revenue derived from the IP Cooperation CCTs for the three years ended December 31, 2020, and (iii) the compound annual growth rate of 11.40% 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 11.2 million as of December 31, 2018 to 13.9 million as of December 31, 2020.

Reasons and Benefits for Entering into the 2021 IP Cooperation Framework Agreement

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

2. 2022 Advertisement Cooperation Framework Agreement

Principal terms of the 2022 Advertisement Cooperation Framework Agreement are set out as follows:

Date:	August 16, 2021
Parties:	(1) Shanghai Yueting (on behalf of the Group), and (2) Tencent Computer (on behalf of the Retained Tencent Group)
Term:	From January 1, 2022 to December 31, 2024
Subject matter:	The Group agreed to place advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group.
Fee arrangements:	The Retained Tencent Group shall pay commissions to the Group in return. Please refer to the below section headed “Annual Caps and Basis of Determination” for further details of the commission arrangement.
Payment and settlement terms:	Payment and settlement terms under the 2022 Advertisement Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2022 Advertisement Cooperation Framework Agreement.

Pricing Policy

The prescribed percentages for the revenue generated from the advertisement which are solicited by the Retained Tencent Group being placed on the Platforms of the Group shared by the Group will vary from platform to platform and shall be determined between the relevant parties on an arms-length basis from time to time and will in any event be 70% or more. Generally, when determining the prescribed percentage for specific advertisement cooperation, the Group will take into account factors such as the coverage of advertisement solicited by the Retained Tencent Group, other services that may be required by the Group or the Retained Tencent Group, the total number of advertisements viewed by the users of the Platforms of the Group, which is estimated with reference to the scale and reading habits of the users of the Platforms of the Group in recent years and the overall assumed advertising fee rate for the advertisement to be placed on the Platforms of the Group, having regard to the prevailing business and revenue generation model in relation to such new market segment (i.e. offering literary content for free and earn revenue through advertisements).

The arrangement with the Retained Tencent Group is not directly comparable with those between the Group and other third party distribution channels, primarily because the Retained Tencent Group is one of the leading integrated service providers for online advertisement and it is critical for the Group to be able to leverage on the Retained Tencent Group's existing end-user base of advertisers to monetize the free literary work to be offered by the Group and capture the Group's share in the market with the rising number of new market entrants.

Historical Amounts

The historical amounts for the aggregate amounts of the revenue generated through the Advertisement Cooperation CCTs for the two years ended December 31, 2020 and the six months ended June 30, 2021 are set out as follows:

	For the year ended December 31,		For the six months ended
	2019	2020	June 30,
	(RMB'000)	(RMB'000)	2021
			(RMB'000)
			(unaudited)
Aggregate amount of commissions paid by the Retained Tencent Group to the Group	313,111	382,692	321,744

Annual Caps and Basis of Determination

The proposed annual caps for the aggregate amounts of the revenue generated through the Advertisement Cooperation CCTs for the three years ending December 31, 2024 are set out as follows:

	For the year ending December 31,		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregate amounts of commissions payable by the Retained Tencent Group to the Group	1,476,664	2,026,729	2,690,060

The above proposed annual caps have been determined taking into account the following factors:

(a) *Revenue sharing arrangement with the Retained Tencent Group*

The revenue arising out of the cooperation under the Advertisement Cooperation Framework Agreement shall be split between the relevant parties and shall be determined in accordance with the following formula:

Net Proceeds of the Advertisement × *prescribed revenue sharing percentage*

Net proceeds of the advertisement (the “**Net Proceeds of the Advertisement**”) shall refer to the aggregate net amount of deposits generated from the advertisements which are solicited by the Retained Tencent Group being placed on the Platforms of the Group after deduction of the reasonable expenses (if any) incurred by the Retained Tencent Group. The amount to be shared by the Group for each of the underlying cooperation under the Advertisement Cooperation Framework Agreement shall not be less than the Net Proceeds of the Advertisement received pursuant to the relevant cooperation in the placing of advertisements which are solicited by the Retained Tencent Group on the channels × 70%.

(b) *Advertising fee rate charged*

The advertising fee rate for the advertisement placed on the Platforms of Group has been determined with reference to the advertising fee rate charged by the existing industry players operating the business model of monetization of free literary works through advertisement, and will be charged on one or more of the following methods depending on the means of cooperation and the Platforms of the Group where the advertisements are placed:

- Cost-Per-Time: charged on the basis of length of duration of advertising services;
- Cost-Per-Click: charged on the basis of the price of each click and number of clicks of online users;
- Cost-Per-Download: charged on the basis of actual download volumes of the products or services offered by the advertisers;
- Cost-Per-Activation: charged on the basis of the number of newly activated users;
- Cost-Per-Sale: charged on the basis of revenue generated from users procured through the Platforms of the Group;
- Cost-Per-Mille: charged on the basis of the number of impressions (expressed in thousands) generated by online users; and/or
- other fees arrangements agreed by the parties.

(c) Online traffic generated by the Platforms of the Group

The Company estimated the online traffic generated by the Platforms of the Group based on the page views by the online users on the Platforms of the Group, which are in turn estimated by the Company taking into factors such as user portfolio of the Platforms of the Group, the reading habits of the users on the Platforms of the Group, the number of advertisements to be placed per each literary works offered on the Platforms of the Group.

In determining the annual caps under the 2022 Advertisement Cooperation Framework Agreement, the Company has further taken into account (i) the total number of advertisements viewed by the users of the Platforms of the Group, estimated with reference to the scale and reading habits of the users of the Platforms of the Group in recent years; (ii) the overall assumed advertising fee rate for the advertisement to be placed on the Platforms of the Group, having regard to the prevailing business and revenue generation model in relation to such new market segment (i.e. offering literary content for free and earn revenue through advertisements); (iii) based on the current negotiation with the Retained Tencent Group, the intention of the Retained Tencent Group to cooperate with the Group on Tencent's centralized advertising platform, where the Company offers literary content on the Platforms of the Group for free and shares the revenue generated from advertisements solicited by the Retained Tencent Group, taking into account the nature, popularity and the commercial potential of the literary works; (iv) the ability of the Group to leverage on the large existing users base on the Platforms of the Group to reach a large audience; and (v) estimated growth of the online advertising market representing a compound annual growth rate of 26.40% in 2020 from 2018.

Reasons and Benefits for Entering into the 2022 Advertisement Cooperation Framework Agreement

In recent years, the industry has seen new players who offer literary content for free and earn revenue through advertisements. The Company considers it imperative to enter such new market segment to capture the growth potential of the market and gain its market shares. As the Retained Tencent Group is one of the leading integrated service providers for online advertisement, the Group intends to cooperate with the Retained Tencent Group on the advertisement and explore such new business model. Accordingly, the Group intends to enter into the 2022 Advertisement Cooperation Framework Agreement with the Retained Tencent Group, pursuant to which the Retained Tencent Group shall solicit online advertisement and place on the Platforms of the Group and the Retained Tencent Group shall share its advertising revenue with the Group.

3. 2022 Online Platform Cooperation Framework Agreement

Principal terms of the 2022 Online Platform Cooperation Framework Agreement are set out as follows:

Date: August 16, 2021

Parties: (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)

Term: From January 1, 2022 to December 31, 2024

Subject matter: (1) *In respect of literary works operated by the Group*

The Retained Tencent Group shall provide the end users of the Retained Tencent Group Channels with access to the Group's authorized literary works so that they can preview the literary works or enjoy free or paid online reading services. The Group shall determine the operation and pricing strategies relating to the authorized literary works or provided content. The Retained Tencent Group shall provide all necessary assistance and shall not distribute the literary works of the Group through other channels. The Group shall have access to the data of back-end technology channels of the relevant Retained Tencent Group Channels to the extent permitted by laws and regulations. Details of cooperation such as the scope of authorized literary works and Retained Tencent Group Platforms, the form of cooperation and authorization of the literary works and the allocation of responsibilities shall be agreed by the parties separately.

(2) *In respect of audio works operated by the Group*

The Retained Tencent Group shall provide the end users of the Retained Tencent Group Channels with access to the Group's audio works so that they can enjoy free or paid online listening services. The Group shall operate the distribution channels as authorized by the Retained Tencent Group and determine the operation and pricing strategies relating to the audio works. The Retained Tencent Group shall provide all necessary assistance. Details of cooperation such as the scope of audio works and Retained Tencent Group Channels, the form of cooperation and authorization of the audio works and the allocation of responsibilities shall be agreed by the parties separately.

The Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group.

Fee arrangements: The parties shall determine the fee arrangement under the 2022 Online Platform Cooperation Framework Agreement based on one of the following methods:

- fixed amount of distribution fees
- revenue sharing/profit sharing
- mixture of the above two

Payment and settlement terms: Payment and settlement terms under the 2022 Online Platform Cooperation Framework Agreement shall be specified in each of the implementation agreements to be entered into under the 2022 Online Platform Cooperation Framework Agreement.

Pricing Policy

(1) In respect of literary works operated by the Group

The fixed distribution fees, the percentage of revenue or profit to be shared by the Group to the Retained Tencent Group, and/or a mixture of the above fee arrangements shall be determined after arm's length negotiation between the parties taking into account various commercial factors, including the quantity and quality of the Retained Tencent Group's distribution channels, the coverage of content products by the Group, the frequency of content update by the Group, and other services that may be required by the Group.

The arrangement with the Retained Tencent Group is not directly comparable with those between the Group and other third party distribution channels, because in such other instances the Group is generally not involved in product operation and instead primarily provides sources of content for display on such third party distribution channels to their readers. The terms for other third-party distribution channels are therefore not directly comparable with those for the self-operated channels of the Group offered by the Retained Tencent Group.

(2) In respect of audio works operated by the Group

The fixed distribution fees, the percentage of revenue or profit to be shared by the Group to the Retained Tencent Group, and/or a mixture of the above fee arrangements shall be determined after arm's length negotiation between the parties with reference to the prevailing market price and taking into account various commercial factors, including the quantity and quality of the Retained Tencent Group's distribution channels, the coverage of content products by the Group, the frequency of content update by the Group, and other services that may be required by the Group.

Historical Amounts

For the two years ended December 31, 2020 and the six months ended June 30, 2021, the historical aggregate generated amounts under (i) the cooperation in the distribution of the Group's literary works; and (ii) the cooperation in respect of the audio works under the 2019 Online Platform Cooperation Framework Agreement are set out as follows:

	For the year ended December 31,		For the six months ended
	2019	2020	June 30, 2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i> <i>(unaudited)</i>
<i>Aggregate amounts paid by the Group to the Retained Tencent under the cooperation in respect of:</i>			
literary works	185,206	137,236	77,745
audio works	—	—	—

Annual Caps and Basis of Determination

The proposed annual caps for the aggregate amounts of the revenue generated under the 2022 Online Platform Framework Agreement for the three years ending December 31, 2024 are set out as follows:

	For the year ending December 31,		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<i>Aggregate amounts payable by the Group to the Retained Tencent Group under the cooperation in respect of:</i>			
literary works	598,198	809,005	1,077,184
audio works	3,000	5,000	8,000

(1) Basis of the annual caps in respect of literary works operated by the Group

In determining the above proposed annual caps in respect of literary works operated by the Group, the Company has taken into account (i) the scale, nature, popularity and commercial potential of the literary contents of the Group; (ii) the estimated increase in the number of (1) the literary works to be distributed and (2) monthly active users of the Retained Tencent Group, resulting from the new cooperation between the Group and Tencent's centralized advertising platform, which will in turn drive the growth of the revenue generated from the online platform cooperation; and (iii) the potential growth in the distribution of literary works, rates of which are approximately 35.24% and 33.15% in 2023 and 2024, respectively, and the year-on-year increments of which are estimated based on the growth of the diverse demands of the users brought about by a wide range of the Retained Tencent Group Channels and the intention of the Group to continually further develop its literary work distribution.

(2) Basis of the annual caps in respect of audio works operated by the Group

In determining the above proposed annual caps in respect of audio works operated by the Group, the Company has taken into account (i) the number of audio works on a given platform, although such number may have limited implication on the proportion of increase in the revenue or profit generated by such audio works once the number of works reaches a relatively large scale; (ii) (1) total monthly active users of the selected Retained Tencent Group Channels, which are sourced from publicly available operating data, and (2) estimated average number of purchases of audio works by the monthly active users and their spending statistics, which are estimated with reference to the historical operating data of the Group's audio channels in 2020; (iii) the revenue/profit sharing model which is similar to the pricing policies agreed between the Group and other third-party platforms; and (iv) the potential growth in the distribution of audio works, rates of which are approximately 66.67% and 60.00% in 2023 and 2024, respectively, and the year-on-year increments of which are estimated based on the growth of business in these segments of the Company.

Reasons and Benefits for Entering into the 2022 Online Platform Cooperation Framework Agreement

The Group distributes the literary works and audio works to readers through the Group's own platforms as well as the Group's self-operated channels on Tencent's distribution channels. The Retained Tencent Group is a leading technology company headquartered in the PRC, which is primarily engaged in communication, social, digital content, games, advertising, fintech and cloud services and has a vast user base. The cooperation between the Group and the Retained Tencent Group in utilizing Tencent's channels to distribute the Group's literary contents and audio works will enable the Group to leverage the popularity of the Retained Tencent Group Channels among users, enhance the popularity of the Group's literary and audio works, and allow the Group to reach more potential users, and further enhance the business growth of the Group.

REVISION OF ANNUAL CAPS UNDER THE 2021 GAME COOPERATION AGREEMENT

Reference is made to the announcement of the Company dated August 11, 2020 in relation to, among other things, the entering into the 2021 Game Cooperation Agreement in relation to the joint operation of the games by the Retained Tencent Group or/and the Group.

The original annual caps for the distribution fees payable by the Group to the Retained Tencent Group and that by the Retained Tencent Group to the Group respectively under the 2021 Game Cooperation Agreement for the three years ending December 31, 2023 are set out as follows:

	For the year ending December 31,		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
The distribution fees payable by the Group to the Retained Tencent Group	90,000	90,000	90,000
The distribution fees payable by the Retained Tencent Group to the Group	100	200	300

Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) agreed to revise the annual caps of the distribution fees payable by the Retained Tencent Group to the Group under the 2021 Game Cooperation Agreement for the three years ending December 31, 2023. Save for the revision of annual caps, the rest of the other material terms of the 2021 Game Cooperation Agreement will remain unchanged.

Principal terms of the 2021 Game Cooperation Agreement are set out as follows:

Date: August 16, 2021

Parties: (1) Shanghai Yueting (on behalf of the Group), and
(2) Tencent Computer (on behalf of the Retained Tencent Group)

Term: From August 16, 2021 to December 31, 2023

Subject matter: The Retained Tencent Group shall cooperate with the Group on the following matters:

- (i) the Group shall license games, which are legally owned by or licensed to it, to the Retained Tencent Group for operations, and
- (ii) the Retained Tencent Group shall license games, which are legally owned by or licensed to it, to the Group for operations.

Fee arrangements: In return for the operation of the Group's or the Retained Tencent Group's games, the Retained Tencent Group or the Group shall pay fees in one or more of the following manners, depending on the specific project and form of cooperation agreed between the relevant parties:

- fixed fee
- revenue/profit sharing, or
- a mix of the above fee arrangements.

Payment and settlement terms: The scope of the game cooperation and payment and settlement terms under the 2021 Game Cooperation Agreement shall be agreed separately between the relevant parties in implementation agreements, which will be entered into under the 2021 Game Cooperation Agreement.

Pricing Policy

The distribution fees payable and/or revenue/profit to be shared by the Group to the Retained Tencent Group and the distribution fees payable and/or revenue/profit to be shared by the Retained Tencent Group to the Group shall be determined after arm's length negotiation between the parties with reference to the prevailing market prices and considering various commercial factors, including the nature, popularity, quality and commercial potential of the relevant games. The Group will only enter into a cooperation agreement with the Retained Tencent Group when the agreement is in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of the distribution fees paid by the Group to the Retained Tencent Group and that by the Retained Tencent Group to the Group respectively under the 2021 Game Cooperation Agreement for the two years ended December 31, 2020 and the six months ended June 30, 2021 are set out as follows:

	For the year ended December 31,		For the six months ended
	2019	2020	June 30,
	(RMB'000)	(RMB'000)	2021
			(RMB'000)
			(unaudited)
The distribution fees paid by the Group to the Retained Tencent Group	21,284	32,671	40,216
The distribution fees paid by the Retained Tencent Group to the Group	24	0	52

Revision of Annual Caps and Basis of Determination

The revision of annual caps for the distribution fees payable by the Group to the Retained Tencent Group and that by the Retained Tencent Group to the Group respectively under the 2021 Game Cooperation Agreement for the three years ending December 31, 2023 are set out as follows:

	For the year ending December 31,					
	2021		2022		2023	
	(RMB'000)		(RMB'000)		(RMB'000)	
	Original	Revised	Original	Revised	Original	Revised
The distribution fees payable by the Group to the Retained Tencent Group	90,000	90,000	90,000	90,000	90,000	90,000
The distribution fees payable by the Retained Tencent Group to the Group	100	1,000	200	3,000	300	5,000

The above revised annual caps of the distribution fees payable by the Retained Tencent Group to the Group were determined by the Board taking into account (i) the historical amounts of distribution fees paid by the Retained Tencent Group in relation to the game cooperation for the two years ended December 31, 2020 and the six months ended June 30, 2021, (ii) the Retained Tencent Group's intention to broaden the cooperation in the Cost-Per-Sale mode and further offer around 20 games owned by or licensed to the Retained Tencent Group for operation by the Group for the year ending December 31, 2021, with each game estimated to generate distribution fee for the Group ranging from RMB30,000 to RMB50,000 per game depending on the nature, popularity and commercial potential of the games, (iii) the estimated annual increase of 30 to 50 games for the two years ending December 31, 2023 under the Cost-Per-Sale cooperation mode, and (iv) the average cost of and revenue/profit in respect of the operation of games by the Retained Tencent Group and the Group, respectively.

Reasons and Benefits for Entering into the 2021 Game Cooperation Agreement

The Retained Tencent Group owns various top-rated game products and game platforms, and the Group has self-operated games. It is expected that the Retained Tencent Group and the Group could leverage each other's competitive advantage in their products and platforms to improve the popularity of games owned by each other and increase the number of users. The Group expects that such two-way cooperation could enable it to further promote the monetization of the IP of its literary contents into games and extend the IP across non-book entertainment media formats to reach more users, thereby broadening and deepening the Group's revenue streams.

INTERNAL CONTROL MEASURES

The Group's Business Development Team will seek to solicit cooperation with other independent third parties to the extent commercially practicable, and will compare the commercial terms offered by the independent third parties with those offered by the Retained Tencent Group in respect of all the continuing connected transactions of the Group respectively entered into with the Retained Tencent Group.

In making the decision as to whether the Group will cooperate with the Retained Tencent Group, the Business Development Team will also consider other commercial factors, such as the potential of the intellectual properties, the prevailing market pricing, the prospects of the intellectual property cooperation, with a view to maximizing the commercial value of the relevant intellectual properties. The Business Development Team is required to comply with the pricing policies for the continuing connected transactions with the Retained Tencent Group as set out above, and the internal control team of the Company will regularly monitor the compliance of such pricing policies.

Furthermore, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any independent third party), the Company has established a standard procedure to examine cooperation and its underlying agreement by taking into account various commercial factors. Before entering into an agreement, legal affairs department and finance department of the Company will conduct the feasibility study and separate review of the cooperation and consider the benefits and risks of such cooperation on a case-by-case basis.

OPINION FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2021 Game Cooperation Agreement (including the annual caps for the three years ending December 31, 2023) 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 Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular) are of the view that the terms of the 2021 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2023), the 2022 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024) and the 2022 Online Platform Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024) 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 2021 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2023), the 2022 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024) and the 2022 Online Platform Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024) and the transactions contemplated thereunder, and their views and recommendation will be included in the circular to be dispatched by the Company. Mr. James Gordon Mitchell, Mr. Cheng Yun Ming Matthew, Mr. Cheng Wu, Mr. Hou Xiaonan and Mr. Zou Zhengyu, all being Directors, are employees of Tencent and have therefore abstained from voting on the relevant Board resolutions approving each of (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement, (iii) the 2022 Online Platform Cooperation Framework Agreement, and (iv) the 2021 Game Cooperation Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under each of (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement, (iii) the 2022 Online Platform Cooperation Framework Agreement, or (iv) the 2021 Game Cooperation Agreement.

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 services. Shanghai Yueting is an indirectly wholly-owned subsidiary of the Company which is principally engaged in the business of the development in computer hardware and software, the design and production of computer products, providing technical services and the marketing planning services.

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

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under each of (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement, (iii) the 2022 Online Platform Cooperation Framework Agreement and (iv) the 2021 Game Cooperation Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for the 2021 Game Cooperation Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are therefore subject to reporting, announcement and annual review requirements but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps for each of (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform 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.

A circular containing, among other things, (i) details of the transactions contemplated under the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement, (ii) a letter of recommendation from the Independent Board Committee to the independent Shareholders, and (iii) a letter of recommendation from the independent financial adviser to the Independent Board Committee and independent Shareholders, is expected to be dispatched to Shareholders by no later than November 24, 2021.

DEFINITIONS

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

“Advertisement Cooperation CCTs”	the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group under the 2022 Advertisement Cooperation Framework Agreement
“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 Company comprising certain personnel responsible for overseeing its intellectual property operations
“Company”	China Literature Limited, an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board (stock code: 772)
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IP(s)”	intellectual property(ies)
“IP Cooperation CCT”	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 licensing of the elements of these works under the 2021 IP Cooperation Framework Agreement

“Independent Board Committee”	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 2021 IP Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2023), the 2022 Advertisement Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024) and the 2022 Online Platform Cooperation Framework Agreement (including the proposed annual caps for the three years ending December 31, 2024)
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed there to under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“New Classics Media”	New Classics Media Holdings Limited, previously known as Qingdao Lake Holdings Limited, a company established in Cayman Islands on May 18, 2018 and whose subsidiaries are principally engaged in the production and distribution of television series and movies
“Online Platform Cooperation CCTs”	the cooperation in the literary works and audio works under the 2022 Online Platform Cooperation Framework Agreement
“Platforms of the Group”	the self-owned platforms and self-operated channels on Tencent products
“PRC” or “China”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, Macau and Taiwan
“Retained Tencent Group”	Tencent and its subsidiaries, excluding the Group
“Retained Tencent Group Channels”	the Group’s self-operated channels on the Retained Tencent Group’s channels
“RMB”	Renminbi, the lawful currency of the PRC

“Shanghai Yueting”	Yueting Information Technology (Shanghai) Co., Ltd. (閱霆信息技術(上海)有限公司) a company established in the PRC on May 27, 2008, and the indirectly wholly-owned subsidiary of the Company
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tencent”	Tencent Holdings Limited, a limited liability company organized 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 Advertisement Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on March 18, 2019 in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group
“2019 Online Platform Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on March 18, 2019 in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through the Retained Tencent Group Channels
“2019 IP Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on March 18, 2019 in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the Group’s products (including but not limited to audio works and comics) and/or the derivative rights related to the intellectual property rights of the intellectual property of these works

“2021 Game Cooperation Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 11, 2020, in relation to, among other things, the joint operation of the games by the Retained Tencent Group or/and the Group which is revised on August 16, 2021, in relation to the revision of annual caps
“2021 IP Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 16, 2021 in relation to the cooperation in the content adaptation of the Group’s literary works, distribution of the works (including but not limited to literary works, audio works and comics) and/or licensing of the elements of these works
“2022 Advertisement Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 16, 2021 in relation to the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group
“2022 Online Platform Cooperation Framework Agreement”	an agreement entered into between Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) on August 16, 2021 in relation to the cooperation in the distribution of the authorized literary works and audio works of the Group through the Retained Tencent Group Channels
“%”	percent

**Note: For ease of reference, the names of the PRC established companies or entities have been included in this announcement in both Chinese and English languages, and in the event of any inconsistency, the Chinese version shall prevail.*

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

Chairman of the Board and Non-executive Director

Hong Kong, August 16, 2021

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Cheng Wu and Mr. Hou Xiaonan as executive Directors; Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu as non-executive Directors; Ms. Yu Chor Woon Carol, Ms. Leung Sau Ting Miranda and Mr. Liu Junmin as independent non-executive Directors.