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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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CHINA LITERATURE LIMITED

阅文集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

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

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



SOMERLEY CAPITAL LIMITED

A notice convening the extraordinary general meeting of China Literature Limited to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 3:00 p.m. on Thursday, December 9, 2021, is set out on pages 61 to 63 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.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

In order to prevent the spread of COVID-19 pandemic and to safeguard the health and safety of Shareholders, the Company will implement the following precautionary measures at the EGM:

- compulsory body temperature checks
- compulsory wearing of surgical face masks
- no provision of refreshments and corporate gifts

Any person who does not comply with the precautionary measures may, to the extent permitted under applicable laws, be denied entry into the venue of the EGM. All attendees are requested to wear surgical face masks at all times at the venue of the EGM. **Shareholders are reminded to exercise their voting rights at the EGM by appointing the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM in person.**

November 5, 2021

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 pandemic and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) compulsory body temperature checks will be conducted on every attending Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person found to be suffering from a fever or otherwise unwell will be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) all attendees are requested to wear surgical face masks at the EGM venue at all times, and to maintain a safe distance with other attendees; and
- (iii) no refreshments and corporate gifts will be provided.

To the extent permitted under applicable laws, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and in response to the recent guidelines on prevention and control of COVID-19 pandemic, Shareholders are reminded that **physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by completing form of proxy in accordance with the instructions printed thereon, Shareholders may appoint the chairman of the EGM as proxy to attend and vote on the relevant resolutions at the EGM instead of attending the EGM in person.**

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions 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
“Articles of Association”	the articles of association of the Company 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 continuing connected transactions
“Company”	China Literature Limited (阅文集团), an exempted company incorporated in the Cayman Islands with limited liability on April 22, 2013, 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” or “EGM”	the extraordinary general meeting of the Company to be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 3:00 p.m. on Thursday, December 9, 2021 or any adjournment thereof and notice of which is set out on pages 61 to 63 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
“IP(s)”	intellectual property(ies)

DEFINITIONS

“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 works and comics) and/or licensing of the elements of these works under the 2021 IP Cooperation Framework Agreement
“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 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
“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 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 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 our Company within the meaning ascribed there to under the Listing Rules

DEFINITIONS

“Latest Practicable Date”	October 28, 2021, 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 parallel with the Growth Enterprise Market of the Stock Exchange
“Platforms of the Group”	the self-owned platforms and self-operated channels on Tencent products
“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
“Retained Tencent Group Channels”	the Group’s self-operated channels on the Retained Tencent Group channels
“RMB”	Renminbi, the lawful currency of the PRC
“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), a company established in the PRC on May 27, 2008, and the indirectly wholly-owned subsidiary of the Company
“Share(s)”	ordinary share(s) of nominal value of US\$0.0001 each in the capital of the Company
“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

DEFINITIONS

“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 of the Stock Exchange (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 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

DEFINITIONS

**“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 Platforms

“%”

per cent

LETTER FROM THE BOARD



CHINA LITERATURE LIMITED

阅文集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

Executive Directors:

Mr. Cheng Wu
Mr. Hou Xiaonan

Non-Executive Directors:

Mr. James Gordon Mitchell
Mr. Cao Huayi
Mr. Cheng Yun Ming Matthew
Mr. Zou Zhengyu

Independent Non-Executive Directors:

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

Registered office:

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

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

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

November 5, 2021

To the Shareholders

Dear Sir or Madam

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

INTRODUCTION

The purpose of this circular is to give you the notice of the Extraordinary General Meeting and the proposal to be put forward at the Extraordinary General Meeting: (a) the re-election of the retiring Director; and (b) the renewal of the continuing connected transactions contemplated under (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement.

LETTER FROM THE BOARD

RE-ELECTION OF RETIRING DIRECTOR

In accordance with article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. On April 26, 2021, Mr. Wu Wenhui retired as a non-executive Director, vice-chairman of the Board and a member of the strategy and investment committee of the Board. On May 24, 2021, Mr. Zou Zhengyu has been appointed as a non-executive Director and a member of the strategy and investment committee of the Board. Please refer to the announcements of the Company dated April 26, 2021 and May 24, 2021. Accordingly, Mr. Zou Zhengyu will retire at the Extraordinary General Meeting and, being eligible, will offer himself for election as Director at the Extraordinary General Meeting.

Details of Mr. Zou Zhengyu, who is subject to re-election at the Extraordinary General Meeting are set out in Appendix I to this circular in accordance with the relevant requirements of the Listing Rules.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated August 16, 2021 in respect of the renewal of (i) the 2019 IP Cooperation Framework Agreement, (ii) the 2019 Advertisement Cooperation Framework Agreement and (iii) the 2019 Online Platform Cooperation Framework Agreement. Reference is also 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

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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.

The principal terms of the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Agreement, and the 2022 Online Platform Cooperation Agreement are set out as below:

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.

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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 or 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 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) that are not operated by the Group;
- licensing by the Group of the elements of literary works, (including Scripts IPs) audio works and comics (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) to the Retained Tencent Group.

LETTER FROM THE BOARD

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

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

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

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

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(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).

(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.

LETTER FROM THE BOARD

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

The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2021 IP Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts of the revenue of the Company derived from the IP Cooperation CCTs under the 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		For the
	December 31,		six months
	2019	2020	ended
	(RMB'000)	(RMB'000)	June 30,
			2021
			(RMB'000)
			(unaudited)
Total fees paid by the Retained Tencent Group to the Group in respect of the IP Cooperation CCTs	581,204	538,632	450,476

LETTER FROM THE BOARD

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 historical and the estimated popularity and commercial value of the Scripts, length and form of the adaptations, estimated revenue to be generated from the adaptations of Scripts IPs and investment and production costs required for subsequent adaptation and monetization of the Scripts IPs.

LETTER FROM THE BOARD

- (b) *Business strategy of the cooperation with the Retained Tencent Group:* The Group cooperates with different departments of the Retained Tencent Group on the adaptation 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 years ending December 31, 2021, 2022 and 2023 taking into account (i) the annual increase of around 10% in the fees generated per Scripts IP and the projected number of the Scripts IPs ranging from three to six for each of the three years ending December 31, 2021, 2022 and 2023 in light of the current negotiation with the Retained Tencent Group, (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. For the avoidance of doubt, the annual cap of the year 2021 decreased from RMB1,700 million (as disclosed in the circular of the Company dated October 23, 2019) to RMB1,211 million, taking into account (i) the historical utilization of the annual cap during the first half of 2021, and (ii) the business needs of the Group, which may develop in line with the market and the expected timetable of the potential cooperation, which might be postponed by around one year due to commercial arrangements, and therefore the relevant transaction amount would also be expected to arise one year later.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2022 Advertisement Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Historical Amounts

The historical amounts 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

LETTER FROM THE BOARD

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 \times 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 \times 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;

LETTER FROM THE BOARD

- 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. As the Group has collaborated closely with Tencent to promote its free-to-read services since the second half of 2020, the Board has also made reference to the historical amounts of the revenue generated from the advertisement cooperation with the Retained Tencent Group, which increased by 107.35% from RMB155.17 million for the six months ended June 30, 2020 to RMB321.74 million for the six months ended June 30, 2021, in line with the enlarged free-to-read market and the Group's plan to continuously expand its free-to-read business; (iv) the ability of the Group to leverage the large existing user base on the Platforms of the Group to reach a large audience and to expand the user base by promoting the free-to-read business; and (v) estimated growth of the online advertising market representing a compound annual growth rate of 26.40% in 2020 from 2018.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

(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.

LETTER FROM THE BOARD

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.

The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2022 Online Platform Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees which range from 80% (the Group) : 20% (the Retained Tencent Group) to 70% (the Group) : 30% (the Retained Tencent Group), shall be in line with or lower than market rates and in the best interests of the Company and the Shareholders as a whole.

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

LETTER FROM THE BOARD

Annual Caps and Basis of Determination

The proposed annual caps for the aggregate amounts payable to the Retained Tencent Group 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>
Aggregate amounts payable by the Group to the Retained Tencent Group under the cooperation in respect of:			
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 advertising revenue taking into account (1) the literary works to be distributed; (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 (3) average daily active users ("DAUs") of free content provided by the Group, which increased by 30% from 10 million in December 2020 to 13 million in June 2021, together with the user stickiness, the Group's aim to enhance DAU monetization and superior literary works will in turn yield a rapid increase in advertising revenue, in line with the enlarged free-to-read market and user base of the Group; 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 current negotiation with the Retained Tencent Group; (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.

LETTER FROM THE BOARD

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.

INTERNAL CONTROL MEASURES

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

The Group's Business Development Team will seek to solicit cooperation with 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. For instance, the Group will assess its business needs and compare the licensing fees proposed by the Retained Tencent Group with the licensing fees offered by at least two other comparable platform operators (if applicable) in the PRC media industry.

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 cooperation, the prevailing market pricing, the prospects of the intellectual property cooperation, with a view to maximizing the commercial value of the relevant cooperation. 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.

The growth in the aggregate amount of the continuing connected transactions between the Group and the Retained Tencent Group is in line with the revenue growth of the Company. The amount of existing connected transactions as a percentage of the Company's total revenue has remained relatively stable. The Company does not expect the increase in the annual cap to raise further reliance and dependency concerns. Meanwhile, the executive Directors will supervise the implementation of such internal procedures on a regular basis (e.g. holding regular

LETTER FROM THE BOARD

meetings with different departments and inquiries into the transactions undertaken pursuant to (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement), and the Board will also conduct the regular review of the transactions underlying (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement.

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.

INFORMATION ON THE PARTIES

The Group is principally engaged in online literature and IP incubation businesses, and is a pioneer of China's online literature market. Shanghai Yueting is an indirectly wholly-owned subsidiary of 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 Latest Practicable Date, Tencent is the controlling Shareholder, and Tencent Computer is a wholly-owned subsidiary of Tencent. Accordingly, Tencent Computer is a connected person of the Company and the transactions contemplated under (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed revised 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.

LETTER FROM THE BOARD

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this circular, which contains its recommendation to the Independent Shareholders in relation to 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). Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 30 to 54 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to 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 principal factors and reasons taken into account in arriving at its recommendation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 61 to 63 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolutions will be proposed to Shareholders to consider and approve (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform 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 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. **In view of the outbreak of COVID-19 pandemic, you are strongly encouraged to appoint the chairman of the Extraordinary General Meeting as proxy to attend and vote on your behalf at the Extraordinary General Meeting.**

LETTER FROM THE BOARD

VOTING BY POLL

Tencent and its associates, namely THL A13 Limited (directly holding 278,085,720 Shares), Qinghai Lake Investment Limited (directly holding 230,705,634 Shares), and Tencent Mobility Limited (directly holding 78,337,470 Shares), are required under the Listing Rules to abstain from voting on the resolutions on approving (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement at the Extraordinary General Meeting. Please refer to Appendix II to this circular for further details. Save as disclosed above, the Board is not aware of any other Shareholder who has any material interest that is required under the Listing Rules to abstain from voting on the aforementioned resolutions.

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, each of the resolutions 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 have been included in the section headed “Letter from the Independent Board Committee” of this 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 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 whose views and recommendation have been included in the section headed “Letter from the Independent Board Committee” of this circular.

LETTER FROM THE BOARD

Mr. James Gordon Mitchell, Mr. Cheng Yun Ming Matthew, Mr. Cheng Wu, Mr. Hou Xiaonan and Mr. Zou Zhengyu, are employees of Tencent, and have therefore abstained from voting on the relevant Board resolutions approving (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated under (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement or (iii) the 2022 Online Platform Cooperation Framework Agreement. Save as disclosed above, none of the other Directors have abstained from voting on the relevant resolutions at the Board meeting.

RECOMMENDATION

The Directors consider that the proposed resolutions for (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement are in the interests of the Group and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favor of all the resolutions to be proposed at the Extraordinary General Meeting.

The Independent Board Committee, having taken into account the advice of Somerley, consider that 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 are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolution 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 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 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement.



CHINA LITERATURE LIMITED

阅文集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

November 5, 2021

To the Independent Shareholders

Dear Sirs or Madams,

the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement

We refer to the circular dated November 5, 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in this circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether (i) the 2021 IP Cooperation Framework Agreement, (ii) the 2022 Advertisement Cooperation Framework Agreement and (iii) the 2022 Online Platform Cooperation Framework Agreement and the transactions contemplated thereunder are entered into by the Group in its ordinary and usual course of business, on normal commercial terms, in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

After taking into account the advice of Somerley as set out in this circular, we consider that 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

annual caps for the three years ending December 31, 2024) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the 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) is in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the 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).

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 full 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 the Circular.



SOMERLEY CAPITAL LIMITED

20th Floor

China Building

29 Queen's Road Central

Hong Kong

November 5, 2021

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the cooperation in the content adaptation of the Group's literary works, distribution and/or licensing of these works, pursuant to the 2021 IP Cooperation Framework Agreement, (ii) the cooperation in placing advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group, pursuant to the 2022 Advertisement Cooperation Framework Agreement, and (iii) the cooperation in the distribution of the Group's authorised literary works and audio works through the Retained Tencent Group Channels, pursuant to the 2022 Online Platform Cooperation Framework Agreement (collectively, the **"Continuing Connected Transactions"**), and the related proposed annual caps (the **"Annual Caps"**). Details of the Continuing Connected Transactions and the Annual Caps are contained in the circular of the Company to the Shareholders dated November 5, 2021 (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, and Tencent Computer is a wholly-owned subsidiary of Tencent. Therefore, Tencent Computer is a connected person of the Company. As such, the transactions contemplated under each of the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement, and the 2022 Online Platform Cooperation Framework Agreement (together the **"Renewed Agreements"**) constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

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As the highest applicable percentage ratio in respect of the proposed annual caps for each of the Renewed Agreements is more than 5%, the transactions contemplated thereunder 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 each of the Renewed Agreements, Tencent and its associates are required under the Listing Rules to abstain from voting on the relevant resolutions to approve the Continuing Connected Transactions (including the Annual Caps) at the EGM.

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 terms of the Continuing Connected Transactions (including the 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, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to certain connected transactions, details of which were set out in the circulars of the Company dated November 10, 2020. The past engagements were limited to providing independent advisory services to the independent board committee and the independent shareholders of the Company pursuant to the Listing Rules, for which we 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 EGM. We have reviewed, among others, (i) the Renewed Agreements, (ii) the annual report of the Company for the year ended December 31, 2020 (the "**2020 Annual Report**"), (iii) the interim report of the Company for the six months ended June 30, 2021 (the "**2021 Interim Report**"), 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 or 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 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 and intellectual property incubation businesses. It operates a number of online literature platforms in the form of mobile apps, such as QQ Reading, and websites, such as Qidian.com. Through its wholly-owned subsidiary, New Classics Media, the Group is also engaged in the production and distribution of television series, web series and films in the PRC. The Shares are listed on the Stock Exchange, and the Company had a market capitalisation of approximately HK\$56.0 billion as at the Latest Practicable Date.

According to the 2020 Annual Report, the Group has been focusing on (i) upgrading its content by increasing both the number and quality of its writers and literary works, and improving its resources and practices to support writers, (ii) upgrading its platform by expanding its relationship with Tencent channels, such as QQ Browser and Mobile QQ, such that the Group could distribute free-to-read content to a wider range of readers, and (iii) upgrading its ecosystem by enhancing the quality and visibility of its IPs in terms of different media formats, including comics, animation, film, television and web series. As at December 31, 2020, the Group had more than 9.0 million writers on the platform with a total 13.9 million literary works, representing an increase of approximately 11.1% and 13.9% respectively compared to that at the end of 2019, and the average monthly active users (“MAU(s)”) on the Platforms of the Group in 2020 was approximately 228.9 million, of which the MAUs on the Retained Tencent Group Channels increased by approximately 7.2% year-over-year from 100.2 million to 107.4 million, primarily due to the expansion of the Group’s free-to-read content distribution, drawing more users to the channels.

In terms of management, the Group has introduced new leaders with extensive industry experience, and optimised its organizational structure, for example by establishing certain joint committees between the Group, New Classics Media and Tencent units, and establishing an IP-focused service platform with functional segments, in order to support decision-making, strengthen ecosystem partnerships, expand production capacity, achieve improvements in quality and quantity, and increase the value of its IPs. Financially, the Group recorded total revenue of approximately RMB8.5 billion and RMB4.3 billion for the year 2020 and the first half of 2021 respectively. Despite an approximate 25.1% decrease for the year 2020, revenues derived from copyrights licensing, provision of advertising and sales of physical books from the Retained Tencent Group increased by nearly 200% year-over-year to RMB825.2 million for the first half of 2021.

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Tencent

Tencent and its subsidiaries (excluding the Group) are principally engaged in communication, social, digital content, games, advertising, fintech and cloud services in the PRC with a vast user base. According to its 2021 interim report, as at June 30, 2021, Tencent's major social communication platforms, being Weixin and WeChat, had a combined MAUs of 1,251.4 million, and its video and music subscriptions reached 125 million and 66 million respectively. Through its product Weixin Moments, Tencent enabled performance-oriented advertisers to link their advertisements to mini programs within Weixin. Tencent's mobile advertising network offered customised in-app advertising solutions, ramping up in-game advertising revenue from third-party game companies and Internet services providers.

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

2. Background to and reasons for the Continuing Connected Transactions

Given the Retained Tencent Group is an integrated service provider with vast user base, the Directors believe that it is natural and in the best interests of the Company and the Shareholders to cooperate with the Retained Tencent Group, and such cooperation forms an important and integral part of the business alliance, which is crucial to the Group's business and operations.

As advised by the management of the Group, the transactions under 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 are non-exclusive in nature, such that the Group is entirely free to choose its partners and platforms, and has no obligation to engage the Retained Tencent Group to carry out the relevant transactions. A summary of background to and reasons for the Continuing Connected Transactions are set out below.

(i) 2021 IP Cooperation Framework Agreement

The Group has been expanding its intellectual property operation business, and establishing extensive relationship with content adaptation partners, including the Retained Tencent Group, for the adaptation of the Group's literary works into different entertainment formats (such as films, television and web series, games and animations), and the distribution and/or licensing of such works. This allows the Group to monetise the commercial value of its literary contents and further enhance its business growth. In 2020, the Group licensed approximately 200 IP rights for adaptation.

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We are given to understand that starting from mid-2019, the Group, through New Classics Media, would pick certain scripts and related IP adaptation rights (the “**Scripts IP(s)**”) for selection by the online video platforms (including the Retained Tencent Group), followed by negotiations on licensing fees for the selected Scripts IP. The parties would agree on a fixed amount of licensing fee, and the online video platforms would select production houses to produce the pertinent television series and films. Under this business model, it is expected to improve certainty of return generated from the licensing of Scripts IPs (given the fixed fee model will not be dependent on future revenue or profit related to a particular IP right) at an earlier time, and optimise operating cash flows when compared to the traditional production model (where New Classics Media is in charge of the subsequent development, production and distribution), and therefore achieve an earlier return on investment.

The Retained Tencent Group is among the top operators of online video platforms in the PRC and therefore the cooperation with the Retained Tencent Group on the licensing of the 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. According to the 2020 Annual Report, Soul Land (斗羅大陸) was one of the successful drama series adapted from the Group’s novel, and it ranked No. 1 on Tencent Video’s hot search list and drama series list with over 4 billion video views.

The current cooperation in the content adaptation, distribution and/or licensing of the Group’s IPs are governed by the 2019 IP Cooperation Framework Agreement, which were approved by the then independent shareholders of the Company at shareholders’ meetings on May 17, 2019, with a revised set of annual caps approved on November 22, 2019. Shanghai Yueting and Tencent Computer entered into the 2021 IP Cooperation Framework Agreement on August 16, 2021 to continue and govern the abovementioned cooperation. As the scope of the 2021 IP Cooperation Framework Agreement has covered the current 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.

(ii) 2022 Advertisement Cooperation Framework Agreement

We are given to understand that in recent years, certain new players in the industry offer literary contents 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 share. According to the 2020 Annual Report, the average daily active users (the “**DAUs**”) for the Group’s free reading channels reached approximately 10 million users in December 2020, and the management will continue to explore the field of free reading so as to make more progress in this area.

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As confirmed by the management of the Group, currently the Group does not have, and does not intend to develop, any advertisement production capability. It relies solely on external advertising agencies to recommend online advertisements, as it would be costly, time-consuming, and technically difficult for the Group to expand the current scope to online advertising business, and the Group's business strategy is to focus on the production of original content with popular titles.

As the Retained Tencent Group is a leading integrated service provider for online advertisement solicitation, the Group has been cooperating with the Retained Tencent Group, especially in respect of the Group's free-to-read content. The management of the Group informed us that the Retained Tencent Group has a large in-house team responsible for its advertising business, and has set up advertisement solicitation systems. The Group is a member of the Retained Tencent Group's advertisement solicitation systems, and it has been cooperating with the Retained Tencent Group to strategically select those advertisements that may appeal to its existing and potential online readers, to be displayed on the Platforms of the Group.

The current advertisement solicitation by the Retained Tencent Group on the Platforms of the Group is governed by the 2019 Advertisement Cooperation Framework Agreement, which were approved by the then independent shareholders of the Company at shareholders' meeting on May 17, 2019. The 2019 Advertisement Cooperation Framework Agreement will expire on December 31, 2021. In view of the above, on August 16, 2021, Shanghai Yueting and Tencent Computer entered into the 2022 Advertisement Cooperation Framework Agreement to continue and govern the abovementioned advertisement solicitation.

(iii) 2022 Online Platform Cooperation Framework Agreement

The Group has been partnering with the Retained Tencent Group on various platforms to distribute the literary works and audio works to end users through, among others, the Retained Tencent Group Channels, for which the Group could leverage their popularity and in turn enhance the popularity of the Group's literary and audio works by reaching more potential users and enhancing its business growth.

The current online platform cooperation and contents distribution are governed by the 2019 Online Platform Cooperation Framework Agreement, which were approved by the then independent shareholders of the Company at shareholders' meeting on May 17, 2019. The 2019 Online Platform Cooperation Framework Agreement will expire on December 31, 2021. In view of the above, on August 16, 2021, Shanghai Yueting and Tencent Computer entered into the 2022 Online Platform Cooperation Framework Agreement to continue and govern the abovementioned cooperation and distribution.

3. Principal terms of the Continuing Connected Transactions

The principal terms for each of the Renewed Agreements are summarised below. For further details, please refer to the section headed “Renewal of Continuing Connected Transaction” in the letter from the Board in the Circular.

(i) *2021 IP Cooperation Framework Agreement*

General

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into 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 literary works, audio works and comics) and/or licensing of the elements of these works (including artistic elements, musical elements, textual elements and audio-visual elements).

The IP Cooperation CCTs shall exclude any transactions which involve the formation of a joint venture entity or other form of joint arrangement in connection with, or for the purpose of, the adaptation of intellectual property rights to the Group’s literary works. The 2021 IP Cooperation Framework Agreement only covers the IP Cooperation CCTs entered into between the Group and any member of the Retained Tencent Group, but it does not cover any transaction between the Group and any associates of Tencent, for which the Company will comply with the relevant requirements under the Listing Rules separately.

Forms of cooperation

Pursuant to the 2021 IP Cooperation Framework Agreement, the forms of cooperation include, among others:

- (i) adaptation by the Retained Tencent Group of the Group’s literary works into movies, television series, games, audio works, animations or comics (the “**Adaptation Cooperation CCTs**”), and
- (ii) licensing by the Group of (a) the information network transmission rights of works (including but not limited to literary works, audio works and comics) that are not operated by the Group, and (b) the elements of literary works (including Scripts IPs), audio works and comics (including but not limited to artistic elements, musical elements, textual elements and audio-visual elements) (the “**Licensing Cooperation CCTs**”), to the Retained Tencent Group.

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

For the avoidance of doubt, the following transactions will not be covered by the 2021 IP Cooperation Framework Agreement:

- (a) the licensing of the information network transmission rights of the Group's literary works and audio works distributed on the platforms that are operated by the Group to the Retained Tencent Group, which will be conducted and carried out under the 2022 Online Platform Cooperation Framework Agreement, as detailed in sub-section headed below "2022 Online Platform Cooperation Framework Agreement", and
- (b) the licensing of the Group's internet information broadcast rights and broadcast rights of audio-visual works (including films, television series and animation) to the Retained Tencent Group, which are being 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, details of which are set out in the announcement of the Company dated August 11, 2020 and the circular of the Company dated November 10, 2020.

Fee arrangements

The fee arrangements relating to the IP Cooperation CCTs, which are the same as that of the 2019 IP Cooperation Framework Agreement, 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).

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

Pricing policies

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

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

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

As to the licensing of the audio works and comics distributed on the platforms that are not operated by the Group, the pricing policies will be determined with reference to the prevailing market price and average revenue/profit sharing percentage in the industry, ranging from 50% to 80% (portion to be shared by the Group, being the owner of the relevant IP), and taking into account various commercial factors, including, among others, 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.

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The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2021 IP Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Term

Subject to the approval from the Independent Shareholders at the EGM, the 2021 IP Cooperation Framework Agreement has a term from the date of such approval to December 31, 2023.

Payment and settlement terms

Payment and settlement terms shall be specified in each of the implementation agreements to be entered into under the 2021 IP Cooperation Framework Agreement.

(ii) 2022 Advertisement Cooperation Framework Agreement

General

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2022 Advertisement Cooperation Framework Agreement, pursuant to which the Group has agreed to place advertisements which are solicited by the Retained Tencent Group on the Platforms of the Group, and the Retained Tencent Group shall pay commissions to the Group in return.

Fee arrangements

The revenue arising from the Advertisement Cooperation CCTs shall be split between the relevant parties, determined in accordance with the following formula, which is the same as that of the 2019 Advertisement Cooperation Framework Agreement:

Net proceeds of the advertisement x prescribed revenue sharing percentage

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, such as handling charges and distribution channels expenses (if any), incurred by the Retained Tencent Group.

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The prescribed revenue sharing percentage for the revenue generated from the Advertisement Cooperation CCTs will vary from platform to platform. It shall be determined between the relevant parties on an arms-length basis from time to time, and the revenue to be shared by the Group will in any event be 70% or more. Generally, when determining the prescribed percentage for a 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 Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2022 Advertisement Cooperation Framework Agreement will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or higher than market rates and in the best interests of the Company and the Shareholders as a whole.

Term

Subject to the approval from the Independent Shareholders at the EGM, the 2022 Advertisement Cooperation Framework Agreement has a term from January 1, 2022 to December 31, 2024.

Payment and settlement terms

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

(iii) 2022 Online Platform Cooperation Framework Agreement

General

On August 16, 2021, Shanghai Yueting (on behalf of the Group) and Tencent Computer (on behalf of the Retained Tencent Group) entered into the 2022 Online Platform Cooperation Framework Agreement, in relation to the cooperation in the distribution of the Group's authorised literary and audio works through the Retained

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Tencent Group Channels. The Retained Tencent Group shall provide the end users of its platforms with access to (i) the Group's authorised literary works so that they can preview the literary works or enjoy free or paid online reading services (the "**Literature Cooperation CCTs**") and (ii) the Group's audio works that are operated by the Group (the "**Audio Cooperation CCTs**"), so that they can enjoy free or paid online listening services.

In respect of the Literature Cooperation CCTs, the Group shall determine the operation and pricing strategies relating to the authorised literary works or provided content, while 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.

In respect of the Audio Cooperation CCTs, the Group shall determine the operation and pricing strategies relating to the audio works, while the Retained Tencent Group shall provide all necessary assistance.

Details of the cooperation, such as the scope of authorised literary works and audio works and the Retained Tencent Group Channels, the form of cooperation and authorisation of the literary works and audio works, and the allocation of responsibilities shall be agreed by the relevant parties separately. In addition, the Group shall license the information network transmission rights of its literary works and audio works to the Retained Tencent Group.

Fee arrangements

The fee arrangements under the 2022 Online Platform Cooperation Framework Agreement shall be as follows:

- (a) a fixed amount of distribution fees,
- (b) a percentage of revenue/profit, to be shared between the parties, or
- (c) a mixture of the above (a) and (b).

Pricing policies

As to the licensing of the literary works and audio works that are operated by the Group, the fee arrangements shall be determined after arm's length negotiation between the relevant parties with reference to the prevailing market price (if available), 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.

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The Business Development Team shall seek to solicit cooperation with at least two other Independent Third Parties to the extent practicable. If no comparable Independent Third Party is available, the Business Development Team is required to explain the reasonableness and necessity of cooperation with related parties and why it is in the interests of the Group as a whole, in terms of the background of the cooperation, cooperation considerations and reasonableness of pricing. The pricing terms under the 2022 Online Platform Cooperation Framework Agreement, which range from 80% (shared by the Group): 20% (shared by the Retained Tencent Group) to 70% (shared by the Group): 30% (shared by the Retained Tencent Group), will be no less favorable to the Company than terms of cooperation available to Independent Third Parties (if applicable), and the fees shall be in line with or lower than market rates, and in the best interests of the Company and the Shareholders as a whole.

Term

Subject to the approval from the Independent Shareholders at the EGM, the 2022 Online Platform Cooperation Framework Agreement has a term from January 1, 2022 to December 31, 2024.

Payment and settlement terms

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

Our assessment of the terms of the Continuing Connected Transactions

We have discussed with the management of the Group the terms under each of the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement. We have also reviewed lists of the existing IP Cooperation CCTs, the existing Online Cooperation CCTs and the existing Advertisement Cooperation CCTs and 21 sample contracts, which were selected on a random basis from all contracts executed during the period from January 1, 2020 to June 30, 2021 (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. As confirmed by the management of the Group, the Group was still in negotiations with the Retained Tencent Group on terms under the Audio Cooperation CCTs, and there was no implementation agreement entered into during the above timeframe.

On the basis of the Sample Contracts, we note the following:

- (i) the IP Cooperation CCTs (excluding the licensing of Scripts IPs and literary works distributed on platforms that are not operated by the Group, as set out in point (ii) below) generally followed the revenue/profit sharing arrangement, and the relevant value for each type of adaptation and licensing varied significantly, which in turn depends on various commercial and other factors, as detailed in the above;

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- (ii) the licensing of Scripts IPs and literary works distributed on platforms that are not operated by the Group followed a fixed fee model and the licensing fees vary from RMB20 million to RMB300 million, depending on the attributes of the particular Scripts IPs and literary works;
- (iii) the Advertisement Cooperation CCTs followed the revenue sharing arrangement, and the relevant revenue sharing percentages shared by the Group are all more than 65%; and
- (iv) the Literature Cooperation CCTs followed the revenue sharing arrangement, and the relevant revenue sharing percentages shared by the Group are all more than 70%.

The management confirmed to us that the variety of fee arrangements included in each of the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform 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.

In order to substantiate the above, we have reviewed similar cooperation arrangements between the Group and Independent Third Parties, selected on a random basis from the transaction lists covering the period from January 1, 2020 to June 30, 2021. The Company informed us that for each of the licensing of Scripts IPs, the Literature Cooperation CCTs and the Advertisement Cooperation CCTs, the fee arrangements with the Retained Tencent Group are not directly comparable with those between the Group and Independent Third Parties, mainly due to the uniqueness of the relevant IPs, the involvement in product operation, and the end user base of the relevant distribution channels. As confirmed by the management of the Group, there was no similar cooperation arrangement between the Group and the Independent Third Parties in respect of Literature Cooperation CCTs and IP Cooperation CCTs during the period from January 1, 2020 to June 30, 2021. Despite the above fact, we reviewed similar cooperation arrangements between the Group and the Independent Third Parties and note that:

- (i) cooperation similar to licensing of Scripts IPs followed a fixed fee model and the licensing fees vary and up to RMB300 million for a particular Scripts IP; and
- (ii) cooperation similar to Advertisement Cooperation CCTs followed the revenue sharing arrangement, and the relevant revenue sharing percentages shared by the Group are 70%.

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

Based on our discussions with management of the Group and review of the historical transactions, for each of the Continuing Connected Transactions, the fee payments are usually settled on a monthly or quarterly basis, which is in line with the payment terms between the Group and Independent Third Parties.

4. Internal control measures

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

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

In making the decision as to whether the Group will cooperate with the Retained Tencent Group in relation to the Continuing Connected Transactions, the Group's Business Development Team will consider commercial factors, including the potential of the cooperation, the prevailing market pricing and the prospects of the cooperation. The Group will only enter into the Continuing Connected Transactions when, from its perspective, the commercial value of the subject intellectual properties can be maximized and such cooperation is in the best interests of the Company and the Shareholders as a whole.

In addition, as part of the Company's standard procedures, regardless of the party the Group may cooperate with (whether it is the Retained Tencent Group or any Independent Third Party), the legal affairs department and finance department of the Company will conduct a feasibility study and separate review on the cooperation and consider the benefits and risks of such cooperation on a case-by-case basis before entering into an agreement. The executive Directors will also supervise the implementation of such internal procedures on a regular basis (e.g. holding regular meetings with the relevant internal departments to discuss issues relating to the Continuing Connected Transactions or any potential deviations from the terms of the relevant framework agreements and the underlying transaction agreements). We are advised by the management of the Group that no common director, senior management or staff of the Group and the Retained Tencent Group will be involved in the above internal approval process.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the relevant internal control policies relating to the Continuing Connected Transactions, and have received confirmation from the management of the Group that they have been, and will continue to be followed, to ensure the transaction terms with the Retained Tencent Group are no less favourable than those offered by Independent Third Parties to the Group. In our view, the above internal control procedures are important for the conduct of the Continuing Connected Transactions, since exact terms of the transactions will only be agreed upon the entering into the specific agreements. In these circumstances, we concur that the solicitation of cooperation with other Independent Third Parties, and comparison of the terms with those offered by the Retained Tencent Group, will help the Group ensure that the underlying transactions pursuant to each of the Renewed Agreement are on no less favourable terms to the Group. In addition, the independent non-executive Directors and auditors of the Company will review the Continuing Connected Transactions each year, details of which are set out in the section below headed “Reporting requirements and conditions of the Continuing Connected Transactions”.

5. The Annual Caps

(i) 2021 IP Cooperation Framework Agreement

(a) Review of historical transactions

Set out below are the historical transaction amounts and the relevant annual caps in respect of the IP Cooperation CCTs for the two years ended December 31, 2020 and the six months ended June 30, 2021:

	For the year ended December 31,		For the six months ended
	2019	2020	ended June 30, 2021
	RMB'000	RMB'000	RMB'000
Fees paid by the Retained Tencent			
Group to the Group	581,204	538,632	450,476
Annual caps	950,000	1,300,000	1,700,000
Utilisation rate	61.2%	41.4%	53.0%
			(Note)

Note: Based on the relevant six months transaction amount and pro rata annual cap amount

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the above table, the transaction amount decreased by approximately 7.3% to approximately RMB538.6 million in 2020, utilising approximately 41.4% of the relevant annual cap, largely due to the decrease in both number and commercial value of IPs being licensed to the Retained Tencent Group for the adaptation, as a result of a longer production cycle for the relevant media formats caused by the outbreak of COVID-19 and the nationwide lockdown policies in 2020. For the first six months in 2021, the transaction amount reached approximately RMB450.5 million, representing over 80% of transaction amount in 2020. We are advised by the management of the Group, the increase and the higher utilisation (on a pro rata basis) was mainly attributable to the fact that (i) the broadcast approval process for television series on television channels and online video platforms by the relevant PRC authorities has been gradually resuming to normal starting from the second half of 2020, hence, the licensing of the Group's IPs for adaptation by the Retained Tencent Group accelerated.

(b) Assessment of the annual caps

Set out below are the proposed annual caps in respect of the IP Cooperation CCTs (the “**IP Cooperation Caps**”) for the three years ending December 31, 2023:

	For the year ending December 31,		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Fees payable by the Retained Tencent Group to the Group	1,211,000	1,320,500	1,514,000

As set out in the letter from the Board, the IP Cooperation Caps were determined after taking into account: (i) the fixed fee model for licensing of Scripts IP, (ii) the business strategy of the IP cooperation with the Retained Tencent Group, and (iii) the estimated revenue to be derived from the IP Cooperation CCTs for the three years ending December 31, 2023.

In assessing the reasonableness of the IP Cooperation Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that approximately 70% of the IP Cooperation Caps for each of the three years ending December 31, 2023 represent the licensing fees for the Scripts IPs between New Classics Media and the Retained Tencent Group. The remaining portion of the IP Cooperation Caps mainly relates to the adaptation and licensing fees relating to other IP Cooperation CCTs.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

When determining cap amount relating to the licensing of Scripts IPs for the three years ending December 31, 2023, the Company has taken into account the number of Scripts IPs being licensed and the revenue derived from such transactions in the past three years, the current negotiation with various online video platforms, including the Retained Tencent Group, and the Company's plan to further strengthen the cooperation with the Retained Tencent Group in respect of licensing. We are given to understand that the Group has licensed eight Scripts IPs to third parties in 2020, out of which five Scripts IPs were licensed to the Retained Tencent Group. The Group expects to license similar number of Scripts IPs to Retained Tencent Group in each of the years 2021, 2022 and 2023. In addition, the management of the Group assumed an annual increase of approximately 10% in fees generated per Scripts IPs and the projected number of the Scripts IPs ranging from three to six for each of the years 2021, 2022 and 2023, compared to the previous years, having taken into account, among others, the estimated popularity and commercial value of the Scripts IPs, the length and form of adaptations, the estimated revenue to be generated, and the investment and production costs required for subsequent adaptation and monetisation of the Scripts IPs.

The management of the Group informed us that New Classics Media currently has over 100 Scripts IPs (either completed scripts or scripts under development) suitable for licensing and adaptation in its reserve, part of which are intended to be licensed to online video platforms, including the Retained Tencent Group. On the other hands, the number of the Group's intellectual properties available for licensing and adaptation grew from approximately 11.2 million as at December 31, 2018 to approximately 13.9 million as at December 31, 2020, with a compound annual growth rate of approximately 11.4%.

As set out in the letter from the Board, the Group has established an IP-focused intermediate business platform to expand its IP operation capability and have closer collaboration with the Retained Tencent Group for content adaptation and distribution, for example, the Retained Tencent Group and the Group jointly announced a three-year project to adapt 300 works of the Group's online fiction into comics, and established a partnership on serial development of premium IP franchises in respect of films and television series. On the basis of the above, the Group believes that the amount of IP Cooperation CCTs is expected to increase in the coming three years, and hence the transaction amount is expected to follow the same direction.

As set out in the letter from the Board, the annual cap for the year 2021 decreased from RMB1,700 million to RMB1,211 million, which was determined after taking into account (i) the historical utilisation of the annual cap during the first half of 2021, and (ii) the business needs of the Group and the expected timetable of the potential cooperation, which might be postponed by approximately one year due to commercial arrangements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) 2022 Advertisement Cooperation Framework Agreement

(a) Review of historical transactions

Set out below are the historical transaction amounts and the relevant annual caps in respect of the Advertisement Cooperation CCTs for the two years ended December 31, 2020 and the six months ended June 30, 2021:

	For the year ended		For the
	December 31,		six months
	2019	2020	ended
	RMB'000	RMB'000	June 30,
			2021
			RMB'000
Aggregate amount of commissions paid by the Retained Tencent Group to the Group	313,111	382,692	321,744
Relevant annual caps	503,048	754,571	905,486
Utilisation rates	62.2%	50.7%	71.1%
			<i>(Note)</i>

Note: Based on the relevant six months transaction amount and pro rata annual cap amount

In 2020, the aggregate amount of commissions paid by the Retained Tencent Group to the Group increased by approximately 22.2% to approximately RMB382.7 million. The growth continued and accelerated in the first six months in 2021, reaching approximately RMB321.7 million, representing over 80% of transaction amount in 2020. The relevant annual cap has been fairly utilised for the first six months in 2021, being approximately 71.1%. As advised by the management of the Group, the substantial growth was mainly due to the increase in both the number of advertisements solicited by the Retained Tencent Group and views by end users, as driven by a growing number of average daily users on the Group's free reading channels. In addition, the Group established a free reading decision committee to provide dedicated coordination and management of free content and to incubate high quality free literary works and writers, and will continue to explore the field of free reading market in near future.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Assessment of the annual caps

Set out below are the proposed annual caps in respect of the Advertisement Cooperation CCTs (the “**Advertisement Cooperation Caps**”) for the three years ending December 31, 2024:

	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

As set out in the letter from the Board, the Advertisement Cooperation Caps were determined after taking into account: (i) the revenue sharing arrangement with the Retained Tencent Group, (ii) the advertising fee rate charged by the existing industry players, and (iii) the expected online traffic generated by the Platforms of the Group.

In assessing the reasonableness of the Advertisement Cooperation Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. Based on our review and discussions with the management of the Group, the Advertisement Cooperation Caps are calculated principally with reference to (i) the total number of advertisements expected to be 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 (i.e. free-to-read business by offering literary content for free and earn revenue through advertisements), and (iii) the intention of the Retained Tencent Group to continue cooperating with the Group on Tencent centralised advertising platform under the abovementioned free-to-read business. The Group assumes that it will receive 70% of revenue derived from the transactions for the determination of the Advertisement Cooperation Caps. As the Group has collaborated with the Retained Tencent Group to promote its free-to-read business since the second half of 2020, the Board has also made reference to the historical amounts of the revenue generated from the advertisement cooperation with the Retained Tencent Group, which increased by approximately 107.4% from approximately RMB155.2 million for the six months ended June 30, 2020 to approximately RMB321.7 million for the six months ended June 30, 2021. As set out in the letter from the Board, the Group plans to continuously expand its free-to-read business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, both the number of advertisements solicited by the Retained Tencent Group on the Platforms of the Group and related views by the end users are expected to grow, as the Group has been exploring this business field and distributing more free-to-read contents via Tencent channels, such as QQ Browser and Mobile QQ in recent years. As set out in the Company's 2021 interim report, the Group and Tencent set up a joint team in the first half of 2021 to promote the free-to-read business and to facilitate channel cooperation within Tencent ecosystem in a more efficient manner, and the Group's free content creation platform also continued to produce high-quality free novels and attract more writers.

In view of the Group's continued efforts to expand the free-to-read business as mentioned above, the Group expects the revenue derived from the Advertisement Cooperation CCTs to increase substantially in 2021 and 2022, as evidenced by the substantial increase in transaction amount in the first half of 2021, as discussed in the section above. For the years 2023 and 2024, the Group adopted growth rates of approximately 37.3% and 32.7% respectively for the projection of the Advertisement Cooperation Caps, which are mainly with reference to the estimated compound annual growth rate of approximately 26.4% in the PRC online advertising market between 2018 and 2020, according to an independent market research report published in July 2020, and the Group's strategic focus to increase advertising revenue from such business model.

(iii) 2022 Online Platform Cooperation Framework Agreement

(a) Review of historical transactions

Set out below are the historical transaction amounts and the relevant annual caps in respect of the cooperation in the distribution of the Group's literary works and audio works for the two years ended December 31, 2020 and the six months ended June 30, 2021:

	For the year ended December 31,		For the six months ended
	2019	2020	ended June 30,
	RMB'000	RMB'000	2021 RMB'000
<u>The Literature Cooperation CCTs</u>			
Aggregate amount paid by the Group to the Retained Tencent Group (Note)	185,206	137,236	77,745
<u>The Audio Cooperation CCTs</u>			
Aggregate amount paid by the Group to the Retained Tencent Group	—	—	—
Relevant annual caps	6,600	12,300	18,450
Utilisation rates	N/A	N/A	N/A

Note: No monetary annual cap was adopted, and instead the Group would ensure that the amount to be shared by the Retained Tencent Group for each underlying distribution cooperation shall not exceed 30% of the net proceeds received

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Literature Cooperation CCTs

As shown in the above table, the revenue shared by the Group to the Retained Tencent Group decreased by approximately 25.9% to approximately RMB137.2 million in 2020, mainly due to change in the Group's business focus to free-to-read model, which resulted in a drop in subscription fee income during the transition period. The transaction amount was approximately RMB77.7 million in the first six months in 2021, as compared to approximately RMB66.0 million in the corresponding period in 2020.

The Audio Cooperation CCTs

We are advised by the management of the Group that the Group was still in negotiation with the Retained Tencent Group on terms of the implementation agreements and therefore has not yet paid any distribution fees to the Retained Tencent Group.

(b) Assessment of the annual caps

Set out below are the proposed annual caps in respect of the Literature Cooperation CCTs (the “**Literature Cooperation Caps**”) and the Audio Cooperation CCTs (the “**Audio Cooperation Caps**”) for the three years ending December 31, 2024:

	For the year ending December 31,		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Aggregate amounts payable by the Group to the Retained Tencent under:			
The Literature Cooperation CCTs	598,198	809,005	1,077,184
The Audio Cooperation CCTs	3,000	5,000	8,000

As set out in the letter from the Board, the Literature Cooperation Caps were determined after taking into account (i) the scale, nature, popularity and commercial potential of the literary contents of the Group, (ii) the estimated increase in the advertising revenue taking into account (a) literary works to be distributed, (b) monthly active users of the Retained Tencent Group and (c) the average DAUs of free content provided by the Group, which increased by approximately 67% from approximately 6 million in June 2020 to approximately 10 million in December 2020 and further to approximately 13 million in June 2021, together with the expected increase user stickiness following the continuing expansion in literary contents, and the Group's aim to enhance average DAUs monetisation by increasing advertisement appearance on literary contents, which will in turn lead to a further increase in advertising revenue, and (iii) the potential growth in the distribution of literary works.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the reasonableness of the Literature Cooperation Caps, we have obtained the underlying calculations relating to the projections in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. Based on our review and discussions with the management of the Group, the Literature Cooperation Caps are estimated based on the revenue sharing arrangement, for which the Group will share the subscription fee and the advertising income generated from the Literature Cooperation CCTs on the Retained Tencent Group Channels.

As explained in the sub-section above, the Group's free-to-read business model continue to develop in recent years, and such model was adopted in the Group's literary work distribution on the Retained Tencent Group Channels since the second half of 2020, and the majority of revenue generated under the Literature Cooperation CCTs is expected to be advertising income from the advertisements placed on the Retained Tencent Group Channels, rather than the subscription fee (i.e. the pay-to-read business) historically. On this basis, the management of the Group believes that the historical transaction amounts have limited reference for the setting of the Literature Cooperation Caps, as the transaction amount under the Literature Cooperation CCTs is expected to increase substantially in the coming three years, given the growing popularity of the free-to-read business and the increasing number of the Group's literary work available for distribution.

As set out in the letter from the Board, the Audio Cooperation Caps were determined after taking into account: (i) the number of audio works on a given platform, (ii) total monthly active users of the selected Retained Tencent Group Channels, (iii) estimated average number of purchases of audio works by the monthly active users and their spending statistics, (iv) the revenue/profit sharing model and (v) the potential growth in the distribution of audio works.

In assessing the reasonableness of the Audio Cooperation Caps, we have obtained the underlying calculations relating to the projection of the annual caps in the coming years, and have discussed with the Group the bases and assumptions underlying such projections. We note that the annual caps are calculated principally with reference to total monthly active users of the selected Retained Tencent Group Channels, which are sourced from publicly available operating data, estimated average number of monthly active users that purchase audio works of a given user scale and their spending statistics. In addition, a revenue/profit sharing model is adopted in the underlying projections of the annual caps. Given the highest 2024 annual cap of RMB8.0 million represents considerably less than 0.1% of the Group's consolidated revenue in 2020 and in view of the Audio Cooperation CCTs being peripheral business of the Group at this stage, we do not consider it to be substantial when compared to the business scale of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our general view

Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Annual Caps in a way that can accommodate the potential growth of the Group's business. In particular, certain cooperation between the Group and the Retained Tencent Group are beyond their control, such as the growth of monthly active users of the Retained Tencent Group, which make it difficult for the management of the Group to estimate the future transaction value with high level of certainty. Provided that the Continuing Connected Transactions are subject to annual review by the independent non-executive Directors and auditors of the Company (as summarised below), as required under the Listing Rules and other internal control procedures to safeguard the Group's interest (as summarised in the section above headed "Internal control measures"), the Group would have desirable flexibility in conducting its business if the Annual Caps are tailored to future business activities. In assessing the fairness and reasonableness of the 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 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 annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Group's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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 related 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 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 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 govern the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Shareholders.

OPINION AND RECOMMENDATION

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

Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Continuing Connected Transactions (including the 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.

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

NON-EXECUTIVE DIRECTOR**Mr. Zou Zhengyu**

Aged 43, joined Tencent Technology (Shenzhen) Co., Ltd. in January 2005 and held several positions in the marketing department and copyright business department consecutively. He currently serves as the vice president of Shanghai Tencent Pictures and Culture Communication Co., Ltd. ("**Tencent Pictures**") and holds various management positions. Prior to joining Tencent Pictures, Mr. Zou worked as a product manager and a marketing manager of Shenzhen YLINK Computing System Co., Ltd. from December 2001 to December 2004. He has extensive and in-depth management experience in product planning and operation. Mr. Zou has obtained a bachelor's degree in international corporate management from Dongbei University of Finance and Economics in July 2000.

The Company and Mr. Zou have entered into a letter of appointment, pursuant to which Mr. Zou will not receive any director's fee or any other emoluments.

As at the Latest Practicable Date, Mr. Zou does not (i) have any other position with the Company or any other member of the Group, or any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (ii) have any relationship with any Director, senior management, substantial or controlling shareholders of the Company (as defined in the Listing Rules); or (iii) have any interest in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Hong Kong Law).

Save as disclosed above, there is no other matter in relation to the appointment of Mr. Zou that needs to be brought to the attention of the Shareholders and there is no other information relating to Mr. Zou which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the number of issued Shares was 1,022,026,549 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, 2020, 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, 2020, 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 for a term of three years commencing from August 1, 2020 and is subject to retirement by rotation and re-election in accordance with the Articles of Association as a replacement of the service contract entered into between the Company and the executive Directors on April 27, 2020, and is subject to termination as provided in the service contract.

Each of Mr. James Gordon Mitchell, Mr. Cao Huayi, Mr. Cheng Yun Ming Matthew and Mr. Zou Zhengyu, as the non-executive Director, has entered into an appointment letter with the Company on October 19, 2017, May 17, 2019, November 22, 2019 and May 24, 2021, respectively, for an initial term of three years commencing from the date of their respective appointment letter, subject to retirement by rotation and re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on October 19, 2017 for an initial term of three years, subject to re-election in accordance with the Articles of Association and is subject to termination as provided in the appointment letter.

As at the Latest Practicable Date, none of the Directors (including the aforementioned Directors) had any existing or proposed service contract with any member of the Group which is not expiring nor 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 as set out in Appendix 10 of the Listing Rules were as follows:

Interests of Directors and Chief Executives of the Company

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company⁽¹⁾
Mr. James Gordon Mitchell	Beneficial owner	281,352	Long position	0.03%
Mr. Cao Huayi ⁽²⁾	Interest in controlled corporations	40,396,163	Long position	3.95%
Mr. Cheng Yun Ming Matthew	Beneficial owner	3,092	Long position	0.00%
Mr. Cheng Wu	Beneficial owner	4,204,400	Long position	0.41%
Mr. Hou Xiaonan	Beneficial owner	2,287,072	Long Position	0.22%

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⁽³⁾
Mr. James Gordon Mitchell	Tencent Holdings Limited	Beneficial owner	11,975,763 ⁽³⁾	0.12%
	Tencent Music Entertainment Group	Beneficial owner	456	0.00%
Ms. Yu Chor Woon Carol	Tencent Holdings Limited	Beneficial owner	5,000	0.00%
Mr. Cheng Yun Ming Matthew	Tencent Holdings Limited	Beneficial owner	550,013 ⁽⁴⁾	0.01%
Mr. Cheng Wu	Tencent Holdings Limited	Beneficial owner	165,624 ⁽⁵⁾	0.00%
Mr. Hou Xiaonan	Tencent Holdings Limited	Beneficial owner	117,988 ⁽⁶⁾	0.00%

Notes:

- (1) The calculation is based on the total number of 1,022,026,549 Shares in issue as of Latest Practicable Date.
- (2) 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 34,118,942 Shares and 6,277,221 Shares interested in by C-Hero Limited and X-Poem Limited pursuant to the Share Purchase Agreement, respectively.
- (3) These interests comprise (i) 2,297,022 shares of Tencent, (ii) 1,662,621 shares underlying Tencent in respect of the awarded shares granted to Mr. James Gordon Mitchell under share award schemes of Tencent, and (iii) 8,016,120 shares underlying Tencent in respect of the options granted to Mr. James Gordon Mitchell under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (4) These interests comprise (i) 348,935 shares of Tencent, (ii) 48,031 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Yun Ming Matthew under share award schemes of Tencent, and (iii) 153,047 shares underlying Tencent in respect of the options granted to Mr. Cheng Yun Ming Matthew under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (5) These interests comprise (i) 21,109 shares of Tencent, (ii) 3,708 shares underlying Tencent in respect of the awarded shares granted to Mr. Cheng Wu under share award schemes of Tencent, and (iii) 140,807 shares underlying Tencent in respect of the options granted to Mr. Cheng Wu under share option schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation of the Company.
- (6) These interests comprise (i) 102,537 shares of Tencent, and (ii) 15,451 shares underlying Tencent in respect of the awarded shares granted to Mr. Hou Xiaonan under share award schemes of Tencent. Tencent is the controlling shareholder of the Company and thus is an associated corporation 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.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, directly or indirectly, has had any interest in any assets which had since December 31, 2020 (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 document will be published on websites of the Stock Exchange at www.hkexnews.hk and the Company at <http://www.yuewen.com/> up to and including the date which is 14 days from the date of this circular:

- (a) the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CHINA LITERATURE LIMITED

阅文集团

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 772)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting of China Literature Limited (the “**Company**”) will be held at Niccolo Room, Level 25, The Murray, Hong Kong, a Niccolo Hotel, 22 Cotton Tree Drive, Central, Hong Kong at 3:00 p.m. on Thursday, December 9, 2021 for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions.

Unless otherwise specified, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated November 5, 2021 (the “**Circular**”).

Ordinary Resolution

1. To re-elect Mr. Zou Zhengyu as a non-executive Director and authorise the Board of Directors to fix the remuneration of the directors of the Company.
2. To consider and, if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

“That:

- (a) the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement and the transactions contemplated thereunder, details of which are more particularly described in the circular of the Company dated November 5, 2021 (the “**Circular**”), be and is hereby approved, ratified and confirmed;
- (b) the proposed annual caps for the continuing connected transactions contemplated under the 2021 IP Cooperation Framework Agreement, the 2022 Advertisement Cooperation Framework Agreement and the 2022 Online Platform Cooperation Framework Agreement as set out in the Circular be and are hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one executive Director be and is hereby authorized for and on behalf of the Company to execute, and where required, to affix the common seal of the Company to, any documents, instruments or agreements, and to do any acts and things deemed by him or her to be necessary, expedient or appropriate in order to give effect to and implement the transactions contemplated 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).

By order of the Board

CHINA LITERATURE LIMITED

Mr. James Gordon Mitchell

Chairman of the Board and Non-executive Director

Hong Kong, November 5, 2021

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Monday, December 6, 2021 to Thursday, December 9, 2021, 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 Friday, December 3, 2021.
- (v) In respect of resolutions numbered 1 above, details of the director of the Company proposed for re-election are set out in Appendix I to the Circular.
- (vi) Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in this notice will be taken by poll at the above meeting.